

**Seasoned Equity Offerings: What Firms Say, Do,  
and How the Market Reacts\***

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## **Seasoned Equity Offerings: What Firms Say, Do, and How the Market Reacts**

### **Abstract**

Using a sample of 449 firms that issued seasoned equity, we investigate the ex ante reasons stated by the firm for the use of capital, the actual ex post use of funds, and the market reaction to this information. We find that, regardless of the stated use of funds, firms increase capital expenditures and research and development following an SEO. In addition, firms increase their long term debt following an SEO, even when the stated reason for the capital is to pay down debt. The market reacts more favorably to the anticipated investment increases if the firm provides specific plans for the use of the soon-to-be-raised capital. The evidence is consistent with the view that information asymmetries and agency issues are important factors in SEOs.

## 1. Introduction

Previous research has documented a negative market reaction to seasoned equity offerings (SEOs), the cause of which has been the subject of considerable debate in the literature.<sup>1</sup>

Because there is an information asymmetry between management and investors, any equity investment includes inherent uncertainty that the capital will be used in a value increasing manner. The information that management reveals about the intended use of funds should have an impact on the stock price, to the extent that the announcement contains new, credible, material information regarding future cash flows or risk. One of the few studies that provides evidence on this issue is Masulis and Korwar (1986), who find no difference in two-day cumulative abnormal returns among groups of firms with different stated intentions for the use of the issue proceeds. Their evidence suggests that the information provided by the firm regarding the use of funds is not new, not credible, or not material.

We revisit and provide new evidence on the role of information in SEOs by focusing on management's stated intentions for the expected inflow of capital. Specifically, we address three questions: (1) What do firms state they intend to do with the expected proceeds? (2) What do firms actually do with the capital they raise? (3) Is the market's reaction related to what firms say and/or what firms do?

In doing so, we contribute to the existing literature in several ways. First, we examine SEOs relative to firms' stated ex ante intentions for the soon-to-be-raised capital, rather than simply firms' realized use of funds. Second, we provide new evidence on SEO firm characteristics and how these firms use newly raised capital following an equity issue. Third,

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<sup>1</sup> For evidence of negative abnormal returns associated with the announcement of a SEO see, Masulis and Korwar (1986), Denis (1994), Jung, Kim, and Stulz (1996), and Lemmon and Zender (2004).

we update and add to older literature on the relationship between SEO announcement abnormal returns and the information firms provide regarding the expected use of those funds.

Using firms' Securities and Exchange Commission equity registration filings, we document whether the expected use of funds is primarily for investment (INVEST firms), debt reduction (DEBT firms), or if the firm left the S-filing ambiguous by stating that the majority, or all, of the capital is to be used for general corporate purposes (GENERAL firms). For our sample of SEOs issued in 1997 and 2000, we find 41 percent identify investment as the main reason for raising funds, while only 26 percent state debt reduction as the primary motivation. The remaining 35 percent of our sample firms list the primary intended use of proceeds as general corporate purposes.

We have three main findings. First, regardless of the stated use of funds, firms increase investment at economically meaningful rates, increasing working capital, capital expenditures, and research and development. Over the three-year period starting with the year prior to the SEO, firms in our sample, on average, increase their investment by 163%, with all three subsets having significant increases. Second, to fund their increased investment, firms in our sample do not appear to choose between equity and debt, but rather raise large amounts of both. Over the same three-year period, firms increase the amount of their long term debt by over 195%. Firms that state the reason for the equity issue is to raise capital to pay down debt actually increase their long term debt by 185% by the end of the three-year period. Firms have leverage ratios after the SEO similar to what they had before the SEO. Third, what firms state regarding their use of funds and what firms choose to leave ambiguous effect how the market reacts to the announcement of the equity issue. Firms that provide specific information about the use of the soon-to-be-raised capital have a positive relation between

abnormal announcement returns and the expected size of the investment program. The market has a less favorable view of the anticipated investment programs of firms that are not specific about their use of funds.

Our findings suggest a disconnection. Regardless of what they say, firms increase investment. However, the market reaction is affected by the firm's statements. One view that is consistent with these findings is that the market is concerned that the newly raised, unencumbered capital will be used in a value decreasing manner, and the firm's stated intentions for the use of funds are a bonding mechanism against agency spending.

The rest of this paper is organized as follows. Section 2 introduces the data and presents descriptive statistics. Section 3 provides univariate analyses of what firms say they intent to do with proceeds from the equity issues, and analyzes firm characteristics and how firms actually use the capital they raise following the SEO. We examine the market reaction to the SEO announcements and the role of information provided by the firm regarding the expected use of funds in section 4. We interpret our findings in the context of agency and capital structure theory in section 5 and conclude in section 6.

## **2. Data Description and Ex Ante Firm Characteristics**

Our sample of SEOs comes from Thomson Financial's Corporate New Issues database. We focus our analyses on those firms that issued new shares of common stock in 1997 and in 2000 in a primary or combined offering of seasoned equity. We require the SEO to have a primary component because we are interested in offering where capital is being raised by the firm. A secondary offering involves only the sale of registered stock by insiders and does not

raise capital for the firm. Since we examine firm behavior in the year of and two years following the SEO, our 1997 and 2000 samples do not overlap.

We exclude firms that do not have the necessary data available on Compustat or have less than \$5 million in assets for the year preceding the SEO, resulting in our sample of 449 SEOs. We make some comparisons of SEO firms to a sample of non-SEO firms, which are comprised of all firms on Compustat in 1997 and 2000 with at least \$5 million in assets and not in our sample of SEO firms.

Table 1 reports descriptive statistics for the SEO sample and the non-SEO sample in the year preceding the SEO, as noted by the subscripts (i.e., in years 1996 and 1999, respectively). As seen in panel A, the average SEO firm tends to be smaller in absolute size (as measured by the book value of total assets, TA), as well as on an industry-adjusted basis (Ind. Adj. TA).

[ insert table 1 about here ]

We use three separate measures of relative valuation. First, we include Q, as proxied by the firm's book value of assets minus the book value of equity plus the market value of equity, all divided by the book value of assets. Next, we show the median firm's Q (Ind. Q) in the same three-digit SIC. Finally, we show the firm's industry-adjusted Q (Ind. Adj. Q), which we calculate as the firm's Q minus the industry median Q. Q and industry Q are both hypothesized to be correlated with the market's assessments of the firm's and industry's growth opportunities. Different forms of industry-adjusted Q, such as excess values, have been used as measures of relative firm performance. By all three measures, SEO firms have

significantly higher relative valuations than non-SEO firms. SEO firms are also investing at higher rates. We use  $INV/TA$  as our measure of investment, where  $INV$  is capital expenditures plus research and development expenses. SEO firms have also been investing at significantly greater levels than non-SEO firms on both an absolute and industry-adjusted basis.

Panel B starts with operating performance, as measured by  $OIBD/TA$ . SEO and non-SEO firms are not statistically different in absolute or industry-adjusted operating income. We use long term debt to total book assets as our measure of leverage. SEO firms and non-SEO firms exhibit similar levels of leverage. The ratio of working capital to total book assets ( $WC/TA$ ) is our proxy for firm liquidity. SEO firms appear to have a greater amount of relative liquidity relative to non-SEO firms on both an absolute and industry-adjusted basis. Finally, we include property, plant, and equipment,  $PPE/TA$ , as a measure of asset tangibility, as done in Lemmon and Zender (2004), though  $Q$  is arguably also a good proxy for asset tangibility. The means for SEO firms relative to non-SEO firms for both the absolute and industry-adjusted values are not statistically different. However, the median proportion of tangible assets is less for SEO firms on both an absolute and industry-adjusted basis, consistent with the higher levels of  $Q$  reported in panel A.

### **3. What Firms Say and What Firms Do**

In this section, we describe our method for dividing SEO firms into subgroups based on ex ante uses of expected proceeds. We then provide descriptive statistics and comparisons of the subgroups. Next, we analyze the determinants of the amount of capital to be raised. Finally, we provide statistics for the ex post use of funds.

### **3.1. The Announcement**

For the 449 firms that fit our data requirements, we document the firm's intended purpose for the proceeds, as stated in the firm's latest amendment to their Securities and Exchange Commission registration filings. We identify three specific uses: investment, debt repayment, and general corporate purposes. Investment includes any proceeds the firm intends to use for increasing the asset base of the firm, including the acquisition of other companies. We also include planned spending on research and development in this category. Debt repayment includes any proceeds the firm intends to use to repay any outstanding debt, including revolving credit borrowings. Generally these firms state specific loans that will be paid off, or reduced, utilizing the newly raised funds. The category of general corporate purposes is reserved for those firms who do not detail a more specific use of funds. In most cases of issues that we classify as general, the firm will use a phrase that includes "general corporate purposes" for its anticipated use of proceeds, with no other specification.

An example of an INVEST firm is Human Genome Sciences, Inc., which provided the following in the "use of funds" section of their S-filing, "The Company intends to utilize the net proceeds to accelerate its therapeutic protein research and preclinical development and to expand clinical development, and to fund the filing and prosecution of patents to protect its intellectual property."

DEBT firms generally provide specific information about the obligations they intend to repay. For example, Samsonite Corporation states, "The Company will use such net proceeds as follows: (i) approximately \$69.7 million will be used to prepay approximately \$63.3 million principal amount of the Series B Notes at a redemption price of 110.125% of such

principal amount (which includes an aggregate redemption premium of approximately \$6.4 million ); and (ii) approximately \$46.6 million will be used to reduce borrowings under the Senior Credit Facility.”

GENERAL firms do not provide specific information regarding the intended use of funds for the majority (in most cases, all) of the soon to be raised capital. Paul Harris Stores, for example, states, “The net proceeds to the Company from the Offering will be added to the Company's working capital and used for general corporate purposes.”

For the 323 firms that provide the exact dollar amount they intend to use for investment, debt repayment, or general corporate purposes, we indicate the primary use of proceeds to be the category which corresponds to the largest dollar amount. For another 60 firms, we indicate the primary use of proceeds to be the category that is listed first in the use of proceeds section of the registration filing.

In table 2, we provide univariate statistics associated with the ex ante stated use of funds from the firm’s S-filing associated with the SEO. We include only those firms that provide specific dollar amounts for the expected use of funds, thus excluding a relatively larger portion of GENERAL firms.<sup>2</sup> 323 of the 449 SEO firms provide specific dollar amounts in the latest amendment to their S-filing. We standardize each variable by the firm’s asset base in the year preceding the SEO. The mean statistic is provided on the first row and the median in the second row. The final three columns provide p-values for comparisons between subgroups.

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<sup>2</sup> Some GENERAL firms declare that all funds will be used for general corporate purposes. For these firms, we categorize the total expected issue amount in the S-filing to be “general”. Other firms provide specific dollar amounts for an investment activity, or debt repayment, then state that the rest of the funds will be used for general corporate purposes. Firms that do not state the level of expected proceeds in the S-filing are not included in this portion of the analysis.

[ insert table 2 about here ]

The average issue size for INVEST and GENERAL firms is roughly equal to the book value of assets of the firm in the year preceding the issue, underscoring the fact that SEOs are an economically important event. The issue size for DEBT firms is significantly smaller, at less than one third the size of the pre-SEO firm. The next three categories describe the expected use of funds for SEO firms. The results reflect our classification scheme. INVEST, GENERAL, and DEBT firms state that they expect to use the funds predominately for investment, general corporate purposes, and debt repayment, respectively.

In table 3, we examine the characteristics of SEO firms by classification. The first three columns report the mean and median statistics for each variable for the year preceding the SEO announcement. For comparisons to all non-SEO firms, we look to the statistics in table 1. The final three columns of table 3 report p-values for comparisons across subgroups.

[ insert table 3 about here ]

Panel A shows INVEST firms are smaller than GENERAL and DEBT firms. The mean asset base (TA) of INVEST firms is smaller than that of GENERAL firms, and the median INVEST firm has fewer assets than both the median GENERAL and median DEBT firm. In addition, the median industry-adjusted assets of INVEST firms are significantly fewer than those of the median GENERAL and median DEBT firm, though means are not statistically different.

As in table 1, we report three measures of relative valuation:  $Q$ , industry median  $Q$ , and industry-adjusted  $Q$ . INVEST and GENERAL firms have similar valuations by all three measures, and significantly higher valuations than non-SEO firms. At both the mean and median, DEBT firms have significantly lower valuations than INVEST and GENERAL firms by all three measures. Finally, panel A shows that INVEST and GENERAL firms are investing at significantly higher rates than non-SEO firms and DEBT firms, as shown by both the mean and the median investment and industry-adjusted investment variables.

In panel B, operating performance, as defined by  $OIBD/TA$ , is significantly worse for INVEST firms and significantly better for DEBT firms, relative to non-SEO firms. The median INVEST firm also underperforms its industry, while the median DEBT firm outperforms its industry. The leverage of INVEST and GENERAL firms is significantly less than that of all non-SEO firms, but remains commiserate with their non-SEO industry peers. DEBT firms have significantly greater leverage than non-SEO firms, as well as their non-SEO industry peers. INVEST and GENERAL firms have significantly higher levels of working capital ( $WC/TA$ ) than non-SEO firms and non-SEO industry peers. In contrast, the median DEBT firm has a significantly lower level of  $WC/TA$  than both non-SEO firms and non-SEO industry peers. The statistics for  $PPE/TA$  suggest that INVEST and GENERAL firms have lower levels of asset tangibility, consistent with their higher levels of  $Q$ .

In summary, INVEST and GENERAL firms have higher relative valuations, come from industries with higher valuations, and invest at a higher rate than DEBT firms and non-SEO firms. INVEST firms have worse operating performance, and both INVEST and GENERAL firms have lower leverage, greater liquidity, and fewer intangible assets than non-SEO firms. DEBT firms have better operating performance, higher leverage, and lower liquidity than

non-SEO firms. Our univariate results suggest that INVEST and GENERAL firms tend to be smaller, high growth opportunity firms that are investing at relatively high rates.

### **3.2. Issue Size**

Having examined what firms state they plan to do with the newly raised capital, in table 4 we investigate the determinants of the offer size.

[ insert table 4 about here ]

The dependent variable is the expected net proceeds from the offer, as reported in the S-filing, divided by the book value of total assets in the year preceding the SEO. Model one examines all SEO firms and models two through four examine the three SEO subgroups.

We include several variables that describe the financial state of the firm, as well as the firm's future growth prospects. All variables are for the year prior to the equity issue. We start with a measure of growth opportunities,  $Q$ . We include variables that indicate the firm's ability to use internal cash flow for investment:  $OIBD/TA$ ,  $WC/TA$  (as a proxy for liquidity), and  $LTD/TA$  (to measure debt obligations). We also include variables for asset tangibility ( $PPE/TA$ ) and firm size ( $TA$ ). Finally, we include a variable that measures recent stock price performance. Similar to other SEO studies, we calculate the market-adjusted abnormal returns for each stock for a 60 day period ending two days prior to the SEO announcement.

The positive coefficient for  $Q$  suggests that SEO firms tend to issue more equity when they have better growth opportunities. This relation is strongest for INVEST firms, but also holds for GENERAL firms. There is no significant relation between firm  $Q$  and issue size for

DEBT firms. Cash flow, as measured by OIBD/TA, has significant and negative coefficients for the overall sample, though significance is lost when examining the subgroups. Firms that have greater access to internal capital tend to have smaller SEOs.

The next two variables provide results for which the interpretation is less clear. DEBT firms appear to raise more equity when they have less long term debt and more working capital. GENERAL firms also raise more capital when their level of working capital is greater. For the overall sample and for each subgroup, the size of the equity issue is directly related to the pre-SEO market-adjusted stock returns.

If raising equity is costly, it seems inconsistent that the SEO issue size for firms specifying the purpose for their SEO is to pay down debt is inversely related to the amount of long term debt prior to the issue. In the same way, if raising equity is more likely for capital constrained firms, it appears inconsistent that the size of the SEO is greater for more liquid firms when they state the intended use of the proceeds is for general corporate purposes or debt reduction. Next, we examine whether firms actually use the funds they raise for the purposes they specify.

### **3.3. Use of Funds**

Table 5 presents firm characteristics from the year preceding the issue to two years following the issue. Note that all statistics in panel A are denominated by the asset base of the firm in the year preceding the issue. By doing this, we can focus on the use of funds relative to the firm's pre-issue size.

The first category in panel A reports the growth in assets. Regardless of the stated use of funds, all subsets of SEO firms triple in size within the two years subsequent to the SEO.

This includes DEBT firms, whose stated primary motivation for the equity issue is to recapitalize the firm, rather than expand the firm. The three subgroups grow at rates that are not significantly different than each other by the second year following the SEO.

[ insert table 5 about here ]

All three subsets significantly increase their investment in capital expenditures and research and development in the year of the equity issue, and continue doing so through at least year +2. All three subgroups' investment levels significantly increases in years 0, +1, and +2, relative to year -1, and the level of investment for INVEST and GENERAL firms remains higher than DEBT firms.

Long term debt (LTD) also increases significantly for all three subsets of SEO firms. INVEST and GENERAL firms increase their long term debt in year 0 and continue to increase their long term debt, at least through year +2. DEBT firms do not significantly change their debt level in year 0, contrary to the implications of their stated intentions in their S-filings. Since capital is fungible, firms are able to follow their intentions in their S-filings by paying off specific debt contracts, while not being precluded from raising capital from other sources in the debt market. DEBT firms significantly increase their LTD by year +1 and have nearly three times the LTD in year +2 as they had in the year preceding the SEO.

The increase in long term debt for DEBT firms in the two years following the SEO is not statistically different than the increase in long term debt for INVEST firms. The evidence indicates that firms are not making a choice of equity versus debt, but rather these firms are

raising capital from both sources, regardless of their stated intentions. Finally, all three subsets show large significant increases in their relative levels of working capital.

Panel B of table 5 provides univariate statistics on capital structure, liquidity, and relative valuation. In panel A, the evidence indicates that firms increased their LTD and working capital in absolute terms. In panel B, we investigate debt and working capital relative to the increased asset base of the firm. In the year of the SEO, all three subsets of firms experience a significant decline in leverage, reflecting the large inflow of equity. Over the next two years, however, all three subsets increase leverage, resulting in a similar or greater use of debt in their capital structures, compared to the year before the issue. INVEST firms have a significant increase in their leverage ratios by the end of year +2. In the one and two years following the SEO, DEBT and GENERAL firms maintain leverage ratios statistically similar to those before the equity issue. This, again, shows that DEBT firms are not recapitalizing, but replacing and increasing borrowing.

The evidence in panel A showed an absolute increase in working capital. Panel B indicates that all three subsets have a decline in the relative amount of working capital by the second year following the equity issue. Greenwood (2005) provides evidence that increasing levels of working capital are associated with poor subsequent equity returns. He argues that this evidence suggests firms issue equity when it is over valued, then hold the capital in liquid accounts. Consistent with Greenwood's hypothesis, and utilizing a sample from 38 countries, Kim and Weisbach (2005) find that high Q firms that engage in an SEO increase their holdings of liquid assets, in line with firms timing the market. The evidence in panel B that the ratio  $WC/TA$  declines by the second year following the issue indicates that, for our sample, investments in fixed assets are relatively larger than increases in working capital.

Our findings do not appear to be consistent with Kim and Weisbach (2005) in that high Q firms, such as INVEST and GENERAL firms, do not increase their relative amount of working capital by more than low Q DEBT firms. In fact, by year +2, there is no significant difference in the relative levels of net working capital among the three groups of firms.

INVEST and GENERAL firms experience large and significant relative value declines, as shown by the drop in industry-adjusted Q. These firms' positive industry-adjusted Qs are eliminated by year +2. On the other hand, DEBT firms do not experience relative value declines. DEBT firms' industry-adjusted Qs are not significantly different than 0 before the SEO and remain insignificantly different than 0 in the one and two years following the equity issue.

This evidence collectively suggests that, regardless of their stated intentions, firms are not using the equity market to recapitalize or increase liquidity, but are using capital from both the debt and equity markets to increase firm investment. In addition, while all subsets of firms increase investment following the SEO, INVEST and GENERAL firms do so to a significantly greater extent than DEBT firms and suffer significantly greater declines in relative valuation than DEBT firms.

#### **4. The Market's Reaction to the SEO**

In section 3.3, we provide evidence that SEO firms primarily utilize newly raised capital to initiate large investment programs. In this section, we investigate the market's reaction to the announcement of the firm's intention to issue equity and relate the reaction to the firm's intended use of funds.

We start by calculating two-day cumulative abnormal returns (CARs) for the day of and the day following the announcement of the SEO (day 0, day +1) using standard event study methodology. We use a one-factor market model, with the CRSP equally-weighted portfolio as our proxy for the market. Our estimation period runs from days -250 to -50.

We find the average two-day abnormal announcement return for the overall sample to be -2.76%, which is similar to previous findings on SEOs.<sup>3</sup> INVEST firms have the smallest negative reaction, at -2.18%. GENERAL and DEBT firms have two-day CARs of -3.20% and -3.26%, respectively. The market reaction to INVEST firms is not statistically different from GENERAL or DEBT firms.

Given their increased investment, we use two proxies for the size of the anticipated investment program, stated intentions for use of the proceeds and actual use of proceeds, and relate these to abnormal announcement returns. If the market anticipates that the capital is to be used in a value increasing manner, then we expect that larger anticipated investment programs will be associated with greater (or less negative) abnormal returns. If the market is concerned about the firm engaging in empire building, then we expect a negative relation between the size of the anticipated investment program and abnormal announcement returns. It is important to note that, in these tests, we are investigating the cross-section of returns and are not providing a full explanation for the aggregate negative abnormal returns.

In table 6, we investigate the cross-section of the market reaction to the announcement of the firm's intention to have a SEO. The dependent variable in each of the models is the two-day CAR, as described earlier. We include variables that proxy for the firm's growth opportunities, liquidity, and financial condition.

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<sup>3</sup> See Denis (1994), Jung, Kim, and Stulz (1996), and Lemmon and Zender (2004).

[ insert table 6 about here ]

The first model relates announcement returns to the total expected size of the equity issue (Net Expected), using the values stated in the firm's S-filing. The second model includes the same variables that proxy for the firm's growth opportunities, liquidity, and financial condition, but focuses on the differences in capital intended for various purposes, as stated in the S-filings and reported in table 2. We include all SEO firms that report dollar amounts for the total expected net proceeds (for model 1) and anticipated use of proceeds (for model 2).

In the first model, the expected size of the SEO is positively related to abnormal announcement returns. This suggests the market believes the firm will use the proceeds from the equity issue for value creation, rather than agency spending. Consistent with this interpretation, the coefficient for (Stated INV)/TA<sub>1</sub> in model 2, the amount firms intend to use for investment, is positive and significant, while the coefficients for the other use of funds variables are insignificant. In other words, investment is positively rewarded by the market when it is stated prior to the equity issue. The market does not appear to reward capital that is to be raised for debt reduction or general corporate purposes. The coefficients on all the remaining control variables are qualitatively similar between the two models.

Market-to-book, as a proxy for Q, has multiple interpretations. Q is often viewed as a proxy for growth opportunities. Under this view, we expect the market to react more favorably to firms with higher Qs, as these firms have a greater ability to pursue their growth options or are less likely to engage in agency spending. Previous research on this prediction has been mixed.<sup>4</sup> Market-to-book has also been used as a proxy for over- or under- valuation. Given that this view presumes the market is inefficient, there is no clear prediction for the

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<sup>4</sup> See Denis (1994) and Jung, Kim, and Stulz (1996).

sign of the coefficient. Finally, market-to-book can be viewed as a proxy for asymmetric information about the firm's assets-in-place, as described in the pecking order (Myers and Majluf, 1984). The pecking order theory predicts a negative coefficient. We find an insignificantly negative coefficient. Lemmon and Zender (2004) document a negative relation between abnormal announcement returns and market-to-book ratios, contrasting earlier findings by Denis (1994) and Jung, Kim, and Stulz (1996).

High cash flow reflects greater internal resources and less need for external capital, suggesting that the need for new capital could be interpreted as bad news. Alternatively, to the extent that operating cash flow measures reflect the quality of the firm's growth opportunities, we expect the coefficients to be positive, as discussed earlier for Q. The coefficients for  $OIBD_{-1}/TA_{-1}$  are insignificant in both models.

We also include  $LTD_{-1}/TA_{-1}$  and  $WC_{-1}/TA_{-1}$  as measures of leverage and liquidity and find insignificant coefficients for these variables in both models. For our sample, the level of leverage or liquidity does not appear to impact the market's reaction to the announcement that the firm plans to raise new equity.

The pecking order predicts that firms with greater information asymmetry will suffer from greater value loss. To the extent that asset tangibility is inversely related to information asymmetry, we expect a positive coefficient for  $PPE_{-1}/TA_{-1}$  under the pecking order view. The coefficients for  $PPE_{-1}/TA_{-1}$  in both models are insignificant. For both models, the RUNUP variable is negative and significant. The greater the pre-announcement abnormal returns, the smaller the abnormal announcement returns.

In table 7, we consider our second proxy for the anticipated size of the firm's investment program, the actual use of funds by the firm. Using rational expectations in a manner similar

to Pilotte (1992), Denis (1994), and Bates (2004), we include the change in investment (INV), long term debt (LTD), and working capital (WC) from year -1 to year +1, all standardized by the firm's book value of assets in year -1, as proxies for the market's anticipated actual use of funds.

[ insert table 7 about here ]

We start in model one by examining all SEO firms. Only the change in working capital and RUNUP variables are significant. Overall, the market favorably views equity issues that result in greater liquidity for the firm. However, the market reaction is significantly worse for firms which experience positive pre-SEO abnormal returns. For the entire sample of SEO firms, investment does not appear to be valued by the market.

In models two, three, and four, we report the results for the INVEST, GENERAL, and DEBT firms, respectively. INVEST firms have a significantly positive coefficient for change in investment. This contrasts with GENERAL firms, which have a significantly negative coefficient for change in investment. When firms state their predominant use of proceeds is for investment with specific uses, investment is viewed favorably. When firms are not specific about the expected use of their new capital, expected investment is viewed as value destroying.

Like INVEST firms, DEBT firms have a positive coefficient for change in investment. At first glance, this appears inconsistent with the findings for INVEST and GENERAL firms, that being explicit about firm investment when growth opportunities are strong is rewarded, while vagueness is costly. Masulis and Korwar (1986) suggest this may be due to DEBT

firms' use of debt. To the extent that DEBT firms have incurred debt because of capital expenditures, and if firms are reducing debt with SEO proceeds in order to increase borrowing capacity in the future for the purpose of further capital expenditures, the investment programs of DEBT firms may be explicit and value increasing.

## **5. Discussion**

Why do firms provide specific information in their S-filings, when a statement that the funds will be used for "general corporate purposes" provides the firm with greater flexibility? We argue that, by reducing managerial flexibility through S-filing statements, management creates a bond with the market regarding the use of funds. This suggests that agency issues, in particular the desire to empire build, explain our main findings.

Firms that receive unencumbered capital deploy that capital, regardless of their stated use of funds in their S-filings. It seems reasonable that firms that are confident about the quality of their projects are more likely to provide specific information for the use of funds. In this way, these firms bond themselves with the market that the capital will be utilized as described in the S-filing. Despite the fact that all S-filings provide legal flexibility for the firm to renege, our evidence suggests that the statements do matter to the market. Firms that choose not to provide information to the market do not seem to be given the benefit of the doubt regarding the quality of projects for which the capital will be used.

Previous evidence on the role of agency issues in SEOs is limited. Denis (1994) states that investment opportunities appear to play a small role in determining the market's reaction to SEO announcements. Jung, Kim, and Stulz (1996) find more persuasive evidence that agency issues are important in SEOs.

By examining the firm's statements, this study adds to this literature by utilizing the information directly associated with the announcement to draw inferences of investment quality. Ex ante measures, such as market-to-book, provide an estimate for the market's assessment of the quality of growth opportunities prior to the announcement. These ex ante measures do not incorporate the presence of a new growth opportunity that could be revealed with the intention to issue equity. Additionally, other papers have argued that market-to-book can be viewed as a proxy for asset intangibility or over-valuation, and thus does not have a clear interpretation.

There is a voluminous literature dedicated to the choice that firms make between debt and equity to finance expansion. This paper shows that firms utilize both sources of capital when engaging in large investment programs. The evidence suggests that, when raising capital, firms tend to utilize debt and equity, rather than making a choice of one or the other.

The findings in this paper should also be viewed in the context of capital structure theory. Our findings do not provide a complete explanation for the observed negative announcement periods abnormal returns, as even INVEST firms have negative abnormal returns in aggregate. At face value, some of our findings appear to be consistent with other motivations, such as those described by the trade-off theory, pecking order theory, and timing hypothesis.

The trade-off theory helps explain some, but not all, of our empirical findings. The trade-off theory offers motivations for both investment and recapitalization, but provides no insight into why a firm would issue equity with the stated intention to pay off debt, then increase borrowing following the issue. The trade-off theory does suggest that firms attempt to maintain an optimal capital structure. This is consistent with our finding that firms generally keep leverage ratios the same following an SEO as they had prior to the SEO. The trade-off

theory does not account for the cross sectional differences in abnormal returns that we document.

The ex ante characteristics of DEBT firms are also consistent with trade-off theory motivations. These firms have high leverage ratios, even in comparison to their industry peers. These firms have only average growth opportunities, but have strong operating cash flows, both of which predict higher leverage ratios under the trade-off theory.

The pecking order theory suggests that firms will only issue equity when debt capacity is constrained and are less likely to issue when the firm has more intangible assets. The relatively low debt levels and high levels of intangible assets for INVEST and GENERAL firms do not suggest that these firms will issue equity under motivations described by the pecking order theory. However, these firms do have lower levels of cash flows from operations, consistent with low debt capacities for these industries (Lemmon and Zender, 2004).

Because the pecking order suggests that firms do not have an optimal capital structure, it does not provide any motivation for debt repayment. Thus, it is not clear how to reconcile the motivation for DEBT firms under this hypothesis. Myers (1984) does suggest, in his modified version of the pecking order, that some high debt firms will issue equity in order to maintain the availability of high quality debt. The evidence presented in table 3 is consistent with this view, particularly the relatively higher leverage ratios and lower levels of working capital for DEBT firms.

The pecking order theory also suggests that SEOs are used to raise capital for investment by debt constrained firms. The evidence does not indicate that these firms are debt constrained, given that they have low leverage ratios and raise more long term debt

subsequent to the SEO. It is arguable that Myers (1984) modified pecking order can explain this result, in that these firms may be increasing debt up to the point where they can maintain low-risk debt. The market appears to believe that these firms have valuable growth opportunities, as evidenced by their high relative market valuations. Management could view their growth options as sufficiently valuable to issue equity, despite the costs associated with information asymmetry. As is the case for the trade-off theory, the pecking order theory does not provide an explanation for why debt firms have chosen to proclaim recapitalization as the motive for the issue, then actually engage in investment. The pecking order theory does, however, explain the more positive reaction for firms that attempt to reduce the information gap with the market through greater disclosure.

The timing hypothesis suggests that SEO firms' equity is over valued. High Qs are consistent with this view, but provide only weak evidence, given that the true, intrinsic, equity values are not observable. The ex ante univariate statistics also do not provide any compelling evidence for or against agency motivations for the issue. The RUNUP variable suggest that recent price increases do matter. One interpretation is that the increase in value and the decision to raise capital are both based on the market's and management's changing beliefs about the quality of the firm's growth prospects. Alternatively, this can be interpreted as the firm timing an SEO for periods of high valuations.

The timing hypothesis also suggests that firms are systematically trying to create a wealth transfer from new shareholders to existing shareholders. The most efficient method to do so, assuming that the market consistently under reacts to the news of an equity issue, is to recapitalize the firm when a security becomes over valued. Since debt is easier to value, we expect that timing can be most readily achieved through equity issues. The firm needs to

maintain the market's misperception of value of the firm's growth prospects, so we expect the firm to announce its intention to invest, then actually recapitalize the firm. We find no evidence that firms "bait and switch," by announcing an intention to invest, then actually recapitalize the firm. The firm could achieve the same result by holding the capital in liquid securities in order to buy back debt (or equity, after the market revalues) at a later point in time (Greenwood, 2005). We do not find any evidence that the firm holds excessive amounts of working capital subsequent to the SEO. However, it is plausible that timing does play a role in the agency spending, in that raising equity capital is most likely easier when valuations are high.

Finally, our findings provide some support for Dittmar and Thakor's (2005) theory of equity issues. They provide a model predicting that firms will issue equity when the market and the firm agree on the value of growth opportunities. Our findings suggest that the information gap is not necessarily entirely exogenous. INVEST firms provide more information to the market regarding the quality of the project, presumably narrowing the information gap between the firm and the capital market.

## **6. Conclusion**

We provide new evidence on the role of information in SEOs by focusing on management's stated intentions for the expected inflow of capital. We asked three questions. First, what do firms state they intend to do with the expected proceeds? Second, what do firms actually do with the capital they raise? Third, is the market's reaction related to what firms say and/or what firms do? We find that that a majority of firms state specific plans for the use of the majority of their funds for investment or for debt reduction. However, a sizable

minority of firms provide little or no information regarding the expected use of funds. We find that, regardless of the ex ante stated intentions, firms engage in economically large investment programs. This is true even for those firms that state that debt reduction as the primary motivation for the SEO. We find that providing specific information matters. Firms that attempt to narrow the information gap mitigate the value loss associated with issuing equity. Firms that are deliberately vague suffer value loss directly related to the size of the anticipated investment program. In summary, our evidence provides support for the view that information asymmetries, coupled with agency issues, are important factors in SEOs.

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## Table 1. Descriptive Statistics

The sample is of firms that issued a SEO in 1997 or 2000 that meet data requirements. All Non-SEO firms are all other Compustat firms in 1997 and 2000 that do not engage in a SEO. TA is the total book assets.  $Q = (\text{market value of equity} - \text{book value of equity} + \text{book value of assets}) / \text{book value of assets}$ . Ind. Q is the Q for the median firm in the same 3-digit SIC. INV is capital expenditures + R&D. OIBD is operating income before depreciation. LTD is long term debt. WC is working capital = current assets – current liabilities. PPE is plant, property and equipment. Ind. Adj. indicates that the variable is industry-adjusted. All industry-adjusted variables equal firm variable – median industry variable, where median is defined at the 3-digit SIC level. Means are reported on the first line. Medians are reported below the means. \*\*\*, \*\*, and \* denote significant differences between the groups and All Non-SEO firms at the 1%, 5%, and 10% confidence levels. The final 3 columns report p-values for comparisons between subsets of SEO firms.

Panel A.

	All Non-SEOs	All SEOs
	(1)	(2)
N	11875	449
TA <sub>-1</sub>	1671.2 133.6	676.1*** 114.7
Ind. Adj. TA <sub>-1</sub>	1220.2 .0	398.8** .0
Q <sub>-1</sub>	2.525 1.494	5.009*** 2.496***
Ind. Q <sub>-1</sub>	1.781 1.526	2.160*** 1.810***
Ind. Adj. Q <sub>-1</sub>	.743 .000	2.821*** .504***
INV <sub>-1</sub> /TA <sub>-1</sub>	.111 .075	.165*** .112***
Ind. Adj. INV <sub>-1</sub> /TA <sub>-1</sub>	.020 .000	.055*** .008***

**Table 1, Continued**

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Panel B.

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	All Non-SEOs	All SEOs
	(1)	(2)
OIBD <sub>-1</sub> /TA <sub>-1</sub>	.073	.067
	.111	.109
Ind. Adj. OIBD <sub>-1</sub> /TA <sub>-1</sub>	-.029	-.026
	.000	.000
LTD <sub>-1</sub> /TA <sub>-1</sub>	.189	.181
	.124	.098
Ind. Adj. LTD <sub>-1</sub> /TA <sub>-1</sub>	.051	.056
	.000	.000**
WC <sub>-1</sub> /TA <sub>-1</sub>	.231	.328***
	.218	.300***
Ind. Adj. WC <sub>-1</sub> /TA <sub>-1</sub>	-.011	.053***
	.000	.005***
PPE <sub>-1</sub> /TA <sub>-1</sub>	.297	.279
	.226	.182**
Ind. Adj. PPE <sub>-1</sub> /TA <sub>-1</sub>	.013	.007
	.000	-.006*

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**Table 2. Descriptive Statistics of the SEO Announcement**

The sample is of firms that issued a SEO in 1997 or 2000 that report the specific uses of funds and meet data requirements. Issue size is the expected amount of capital to be raised in the SEO. Investment is the stated amount of funds that are to be used for capital expenditures and research, development, and other investments. General is the stated amount of funds to be used in “general corporate purposes”. Debt repay is the stated amount of funds to be used to repay debt obligations. TA is the total book assets for the firm in year -1. Means are reported on the first line. Medians are reported below the means. The final 3 columns report p-values for comparisons between subsets of SEO firms.

	All SEOs	Invest	General	Debt	P-Values comparing SEO Firms		
					Inv. vs. Gen.	Inv. vs. Debt	Gen. vs. Debt
N	323	144	95	84			
Issue Size/TA <sub>-1</sub>	.868	1.105	.986	.327	.397	.000	.000
	.536	.687	.789	.271	.670	.000	.000
Investment/TA <sub>-1</sub>	.488	1.062	.024	.027	.000	.000	.843
	.039	.626	.000	.000	.000	.000	.012
General/TA <sub>-1</sub>	.287	.009	.937	.026	.072	.000	.000
	.000	.000	.756	.000	.000	.000	.000
Debt Repay/TA <sub>-1</sub>	.094	.036	.024	.272	.337	.000	.000
	.000	.000	.000	.205	.348	.000	.000

**Table 3**

The sample is of firms that issued a SEO in 1997 or 2000 that meet data requirements. All Non-SEO firms are all other Compustat firms in 1997 and 2000 that do not engage in a SEO. TA is the total book assets. Q = (market value of equity-book value of equity + book value of assets)/book value of assets. Ind. Q is the Q for the median firm in the same 3-digit SIC. INV is capital expenditures + R&D. OIBD is operating income before depreciation. LTD is long term debt. WC is working capital = current assets – current liabilities. PPE is plant, property and equipment. Ind. Adj. indicates that the variable is industry-adjusted. All industry-adjusted variables equal firm variable – median industry variable, where median is defined at the 3-digit SIC level. Means are reported on the first line. Medians are reported below the means. \*\*\*, \*\*, and \* denote significant differences between the groups and All Non-SEO firms at the 1%, 5%, and 10% confidence levels. The final 3 columns report p-values for comparisons between subsets of SEO firms.

Panel A	Invest	General	Debt	Inv. vs. Gen.	Inv. vs. Debt	Gen. vs. Debt
	(1)	(2)	(3)	(4)	(5)	(6)
N	172	145	98			
TA <sub>-1</sub>	386.1**	774.3	405.0*	.069	.916	.087
	85.8***	108.3	179.8*	.002	.000	.077
Ind. Adj. TA <sub>-1</sub>	184.8*	459.3	156.6	.158	.874	.115
	-4.3	.0	46.8*	.025	.000	.160
Q <sub>-1</sub>	5.897***	6.628***	1.895	.448	.000	.000
	3.748***	3.276***	1.553	.328	.000	.000
Ind. Q <sub>-1</sub>	2.451***	2.211***	1.764	.127	.000	.000
	2.160***	1.936***	1.490	.463	.000	.000
Ind. Adj. Q <sub>-1</sub>	3.375***	4.416***	.131	.259	.000	.000
	1.035***	1.021***	.003	.801	.000	.000
INV <sub>-1</sub> /TA <sub>-1</sub>	.210***	.155***	.107	.006	.000	.004
	.152***	.129***	.058	.184	.000	.000
Ind. Adj. INV <sub>-1</sub> /TA <sub>-1</sub>	.088***	.041*	.018	.012	.001	.100
	.018***	.021***	.000	.368	.009	.017

Panel B	Invest	General	Debt	Inv. vs. Gen.	Inv. vs. Debt	Gen. vs. Debt
	(1)	(2)	(3)	(4)	(5)	(6)
OIBD <sub>-1</sub> /TA <sub>-1</sub>	.023**	.070	.124*	.038	.000	.006
	.089***	.104	.124**	.169	.002	.032
Ind. Adj. OIBD <sub>-1</sub> /TA <sub>-1</sub>	-.062	-.013	.009	.017	.002	.224
	-.003**	.000	.005*	.045	.012	.543
LTD <sub>-1</sub> /TA <sub>-1</sub>	.142**	.153*	.270***	.635	.000	.000
	.041***	.040***	.255***	.902	.000	.000
Ind. Adj. LTD <sub>-1</sub> /TA <sub>-1</sub>	.037	.054	.102**	.371	.004	.021
	-.002	.000	.103***	.085	.000	.006
WC <sub>-1</sub> /TA <sub>-1</sub>	.381***	.386***	.193	.884	.000	.000
	.360***	.390***	.201*	.951	.000	.000
Ind. Adj. WC <sub>-1</sub> /TA <sub>-1</sub>	.085***	.083***	-.032	.926	.000	.000
	.042***	.031***	-.012*	.805	.000	.000
PPE <sub>-1</sub> /TA <sub>-1</sub>	.257**	.248**	.326	.733	.028	.013
	.151**	.148***	.274	.744	.003	.004
Ind. Adj. PPE <sub>-1</sub> /TA <sub>-1</sub>	.008	-.002	.016	.525	.684	.254
	-.020*	-.013	.000	.761	.220	.237

#### Table 4. Regressions on Issue Size

The sample is of firms that issued a SEO in 1997 or 2000 that meet data requirements. The dependent variable is the net expected capital to be raised, as indicated by the S-filing, divided by total assets in the year preceding the issue. TA is total book assets.  $Q = (\text{market value of equity} - \text{book value of equity} + \text{book value of assets}) / \text{book value of assets}$ . OIBD is operating income before depreciation. LTD is long term debt. WC is working capital = current assets – current liabilities. PPE is plant, property and equipment. RUNUP is the market-adjusted abnormal returns from day -61 to -2, where day 0 is the announcement date. All models include fixed effects for 2-digit SIC.

	All SEOs	Invest	General	Debt
	(1)	(2)	(3)	(4)
CONSTANT	.294 .076	.567 .083	.261 .463	.395 .004
Q <sub>-1</sub>	.048 .001	.064 .015	.035 .015	-.015 .552
OIBD <sub>-1</sub> /TA <sub>-1</sub>	-.691 .086	-.806 .179	-.115 .884	.229 .433
LTD <sub>-1</sub> /TA <sub>-1</sub>	.119 .819	.769 .275	-.821 .263	-.387 .027
WC <sub>-1</sub> /TA <sub>-1</sub>	.220 .334	-.542 .253	.838 .068	.455 .050
INV <sub>-1</sub> /TA <sub>-1</sub>	.901 .041	.467 .438	1.135 .119	-.292 .303
PPE <sub>-1</sub> /TA <sub>-1</sub>	-.167 .734	-.292 .730	-.633 .427	-.110 .588
TA <sub>-1</sub>	-.037 .283	-.025 .519	-.497 .003	-.185 .000
RUNUP	.449 .001	.610 .041	.464 .002	.451 .006
N	313	135	88	89
R-squared	.440	.411	.501	.480

**Table 5. Use of Funds and Post SEO Firm Characteristics**

The sample is of firms that issued a SEO in 1997 or 2000 that meet data requirements. All statistics are standardized by total book assets in the year preceding the SEO. TA is the total book assets. INV is capital expenditures + R&D. LTD is long term debt. WC is working capital = current assets – current liabilities. Q = (market value of equity-book value of equity + book value of assets)/book value of assets. Ind. Q is the Q for the median firm in the same 3-digit SIC. Ind. Adj. indicates that the variable is industry-adjusted. All industry-adjusted variables equal firm variable – median industry variable, where median is defined at the 3-digit SIC level. \*\*\*, \*\*, and \* denote significant differences between the statistic for years 0, +1, and +2 relative to year -1, at the 1%, 5%, and 10% confidence levels. The final 2 columns report p-values for comparisons between subsets of SEO firms for the year +2 statistics.

Panel A.

	[Variable (yr. N) / TA (yr. -1)]				Yr. 2 Comparisons	
	yr. -1	yr. 0	yr. 1	yr. 2	vs. Invest	vs. General
	(1)	(2)	(3)	(4)	(5)	(6)
<b>TA</b>						
All	1.000	2.403***	2.748***	3.222***		
Invest	1.000	2.874***	3.018***	3.375***		
General	1.000	2.505***	2.860***	3.065***	.393	
Debt	1.000	1.585***	2.191***	3.099**	.566	.937
<b>INV</b>						
All	.111	.320***	.335***	.292***		
Invest	.165	.446***	.426***	.380***		
General	.210	.301***	.334***	.297***	.148	
Debt	.107	.169***	.212***	.152**	.000	.001
<b>LTD</b>						
All	.181	.275***	.447***	.535***		
Invest	.142	.278***	.433***	.490***		
General	.153	.207**	.345***	.402***	.511	
Debt	.270	.312	.583***	.770***	.127	.022
<b>WC</b>						
All	.329	.985***	.971***	.991***		
Invest	.381	1.314***	1.326***	1.249***		
General	.386	1.132***	1.064***	1.121***	.516	
Debt	.193	.374***	.399***	.538***	.001	.001

**Table 5, continued**

Panel B.						
	Variable (yr. N) – Variable (yr. -1)				Yr. 2 Comparisons	
	yr. -1	yr. 0	yr. 1	yr. 2	vs. Invest	vs. General
	(1)	(2)	(3)	(4)	(5)	(6)
<u>LTD/TA</u>						
All	.181	-.040***	-.001	.011		
Invest	.142	-.030***	.020	.039*		
General	.153	-.033***	-.012	.007	.511	
Debt	.270	-.073***	-.011	-.017	.239	.087
<u>WC/TA</u>						
All	.329	.041***	-.015	-.050***		
Invest	.381	.051***	.021	-.054*		
General	.386	.024	-.031*	-.046**	.823	
Debt	.193	.047***	-.011	-.052**	.966	.844
<u>Ind. Adj. Q</u>						
All	2.821	-1.972***	-2.408***	-2.509***		
Invest	3.375	-2.388***	-3.002***	-2.956***		
General	4.416	-3.430***	-3.853***	-4.183***	.273	
Debt	.131	.260***	.059	.072	.000	.001

### Table 6. Regressions on Abnormal Announcement Returns

The sample is of firms that issued a SEO in 1997 or 2000 that meet data requirements. The dependent variable is the cumulative abnormal returns from day 0 and day +1, where day 0 is the announcement day. Market Model CAR (Cumulative Abnormal Return) is the cumulative daily return net of a market model. Market model parameters are estimated over days (-250, -50) using an equally weighted market index. TA is total book assets. INV is capital expenditures + R&D. LTD is long term debt. WC is working capital = current assets – current liabilities. Q = (market value of equity-book value of equity + book value of assets)/book value of assets. OIBD is operating income before depreciation. PPE is plant, property and equipment. Stated INV, GEN, and DEBT, are the amounts of capital to be used for investment, general corporate purposes, and debt repayment as listed in the SEO S-filing. INV (GEN) firm indicator are equal to one if the primary purpose of the SEO is investment (general corporate purposes) and 0 otherwise. RUNUP is the market-adjusted abnormal returns from day -61 to -2, where day 0 is the announcement date. All models include fixed effects for 2-digit SIC.

	All SEOs	All SEOs
	(1)	(2)
CONSTANT	-3.655 .025	-2.303 .206
Net Expected/TA <sub>-1</sub>	1.882 .030	
(Stated INV)/TA <sub>-1</sub>		2.301 .009
(Stated GEN)/TA <sub>-1</sub>		1.310 .477
(Stated DEBT)/TA <sub>-1</sub>		-3.342 .162
Q <sub>-1</sub>	-.197 .163	-.204 .183
OIBD <sub>-1</sub> /TA <sub>-1</sub>	.144 .971	1.139 .781
LTD <sub>-1</sub> /TA <sub>-1</sub>	2.271 .285	1.811 .442
WC <sub>-1</sub> /TA <sub>-1</sub>	2.039 .440	1.061 .701
PPE <sub>-1</sub> /TA <sub>-1</sub>	-1.394 .683	-3.039 .397
RUNUP	-3.700 .009	-3.395 .021
N	313	292
R-squared	-0.012	-0.015

**Table 7. Regressions on Abnormal Announcement Returns**

The sample is of firms that issued a SEO in 1997 or 2000 that meet data requirements. The dependent variable is the cumulative abnormal returns from day 0 and day +1, where day 0 is the announcement day. Market Model CAR (Cumulative Abnormal Return) is the cumulative daily return net of a market model. Market model parameters are estimated over days (-250, -50) using an equally weighted market index. TA is total book assets. INV is capital expenditures + R&D. LTD is long term debt. WC is working capital = current assets – current liabilities. Q = (market value of equity-book value of equity + book value of assets)/book value of assets. OIBD is operating income before depreciation. PPE is plant, property and equipment. RUNUP is the market-adjusted abnormal returns from day -61 to -2, where day 0 is the announcement date. All models include fixed effects for 2-digit SIC.

	ALL SEOs	INVEST	GENERAL	DEBT
	(1)	(2)	(3)	(4)
CONSTANT	-2.664 .083	-.420 .881	-10.440 .028	-2.064 .552
(INV <sub>+1</sub> - INV <sub>-1</sub> )/TA <sub>-1</sub>	.438 .796	4.553 .049	-8.409 .028	6.903 .028
(LTD <sub>+1</sub> - LTD <sub>-1</sub> )/TA <sub>-1</sub>	-.597 .272	.162 .794	.518 .439	-.422 .779
(WC <sub>+1</sub> - WC <sub>-1</sub> )/TA <sub>-1</sub>	1.159 .021	.948 .069	.847 .509	-3.904 .293
Q <sub>-1</sub>	-.119 .398	-.297 .045	.154 .485	-.207 .826
OIBD <sub>-1</sub> /TA <sub>-1</sub>	.801 .834	-.402 .935	12.560 .165	-8.458 .452
LTD <sub>-1</sub> /TA <sub>-1</sub>	.282 .883	3.503 .349	-2.497 .677	1.224 .714
WC <sub>-1</sub> /TA <sub>-1</sub>	.164 .948	-3.898 .338	17.320 .038	.388 .953
INV <sub>-1</sub> /TA <sub>-1</sub>	3.141 .352	7.558 .126	-12.018 .190	-12.060 .318
PPE <sub>-1</sub> /TA <sub>-1</sub>	-.100 .974	-8.443 .132	12.864 .076	5.730 .397
RUNUP	-2.178 .074	-2.061 .404	-.732 .695	-2.308 .558
N	365	133	118	87
R-squared	-.018	-.016	.001	-.055