Stock Warrant

A stock warrant is an option on the stock of a firm issued by the same firm, which gives the holder the right to purchase shares at a fixed price from the firm at a future date. When a warrant is exercised, the firm typically issues new shares at the exercise price to fill the order. The resulting increase in shares outstanding dilutes the share value.

A stock warrant gives the holder the right to purchase shares at a fixed price from the firm. It is an option on the common stock of a firm issued by the same firm. Warrants are in many ways similar to call options, but a few key differences distinguish them.

Warrants tend to have longer durations than do exchange-traded call options. They are traded over the counter more often than on an exchange. Investors cannot write warrants like they can options. Warrants do not pay dividends or come with voting rights. When warrants are exercised, the company typically issues new shares at the exercise price to fill the order. The resulting increase in shares outstanding dilutes the share value.

Investors are attracted to warrants as a means of leveraging their positions in a security. Warrants provide investors a way to hedge risk or speculate. They can be used to exploiting arbitrage opportunities.

Warrants frequently attached to bonds or preferred stock as a sweetener can be used to enhance the yield of the bond and make them more attractive to potential buyers. Most commonly issued warrants are often detachable, meaning that they can be separated from the bond and sold on the secondary market before expiration.

Wedded or wedding warrants are not detachable. The investor must surrender the bond or preferred stock the warrant is "wedded" to in order to exercise it. Naked warrants are issued on their own, without accompanying bonds or preferred stock.

Reference:

https://finpricing.com/lib/EqWarrant.html