

Chapter 20

Hybrid Financing: Preferred Stock, Leasing, Warrants, and Convertibles

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Define preferred stock, describe some of its basic features, and identify its advantages and disadvantages.
- Characterize the various types of leases, discuss the financial statement effects of “off balance sheet financing,” and perform the analysis necessary to make lease-versus-borrow and purchase decisions.
- Discuss warrants and the way in which corporations utilize warrants together with bonds as an alternative means of raising investment capital, describe how warrants are valued, the component cost of bonds with warrants, and discuss the wealth effects and dilution due to warrants.
- Explain how convertible securities work, how they are valued, the component cost of convertibles, and how they affect the issuing firm’s capital structure.
- Identify differences between warrants and convertibles.
- Explain the three different ways to report earnings per share if warrants or convertibles are outstanding.
- Identify the three additional advantages that leasing offers the small firm.