

I-15.02

Case Corporation has common and preferred stock outstanding at December 31, as follows:

3,400,000 shares of \$1 par value common stock. The company started the year with 3,000,000 shares, issued 600,000 shares on July 1, and reacquired 200,000 shares on October 1.

100,000 shares of \$100 par value, 5% preferred. These shares have been outstanding all year, and the \$500,000 dividend was declared and paid during the year.

The company's net income for the full year was \$2,600,000.

- (a) Compute the company's basic earnings per share.
- (b) Additionally, assume the preferred stock is convertible into 1,000,000 shares of common stock. Compute the company's diluted earnings per share. For this calculation, the numerator will be net income, as you will assume that the preferred dividend was not paid ("if" the preferred was converted to common, the preferred dividend would not have been paid). The denominator will be the weighted-average common shares plus the number of shares that would be issued on conversion (i.e., 1,000,000).