ABC, Inc. has the following information related to 2002:

- Income after taxes, $300,000
- Common shares outstanding, 100,000 shares
- 20,000 options with an exercise price of $15. Each option allows for the purchase of 1 share of common stock.
- 5,000 warrants with an exercise price of $25. Each warrant allows for the purchase of 1 share of common stock.
- $1,000,000, 10-year, 10% convertible bonds issued at 97. Each $1,000 bond is convertible into 50 shares of common stock. The discount is amortized on straight-line basis.
- 6,000 shares of 10%, $100 par cumulative convertible preferred stock. Each share of preferred stock is convertible into 2.8 shares of common stock.
- 20,000 shares of 5%, $100 par, noncumulative preferred stock.
- The average market price of common stock during the year was $20.
- ABC has a tax rate of 30%
- No dividends were declared during 2002.

Calculate basic and diluted EPS for 2002.

Basic EPS = (300,000 - 60,000) / 100,000 = $2.40

NOTE: The dividends for the 5% PS are NOT subtracted from NI since no dividends were declared. The cumulative PS are the only ones subtracted

Options: 20,000 shares issued

20,000 x $15 = $300,000
300,000 / 20 = 15,000 shares bought back

$240,000 / 105,000 = $2.29

NOTE: The warrants are Antidilutive since the exercise price > avg mkt price.

Convertible Securities:

PS = 60,000 / 28,000 = 2.14

Bonds = [(1,000,000 x 10%) + (30,000 discount/10)]x .7 / 50,000 shares

= (100,000 + 3,000)x .70 / 50,000 = 72,100/50,000 = 1.44

Bonds enter first, then PS
EPS = (240,000 + 72,100)/105,000 + 50,000 = 312,100/155,000 = 2.01

(NOTE: PS is not included, it is Antidilutive to the EPS after bonds)