

Accountancy 422 Earnings Per Share Supplemental Problem

The stockholders' equity section of the Aragorn Company's Balance Sheet as of December 31, 2003, contains the following information.

8% cumulative convertible preferred stock, \$25 par	
1,600,000 shares authorized, 1,400,000 shares issued	
750,000 converted to common, 650,000 shares outstanding.....	\$16,250,000
Common stock, \$0.25 par, 15,000,000 shares authorized,	
8,800,000 shares issued and outstanding.....	2,200,000
Additional paid in capital	32,750,000
Retained earnings	<u>40,595,000</u>
Total stockholder's equity	<u>\$91,795,000</u>

Included in the liabilities of Aragorn Company are 9% convertible subordinated debentures, face value \$20,000,000, issued at par in 2002. The debentures are due in 2011 and, until then, are convertible into common stock of Aragorn Company at the rate of 60 shares of common stock for each \$1,000 debenture. To date, none has been converted.

On April 2, 2003, Aragorn Company issued 1,400,000 shares of convertible preferred stock at \$40 per share. Quarterly dividends are due at the end of March, June, September and December. There are no dividends in arrears. The preferred stock is convertible to common at the rate of two shares of common for each share of preferred. On October 1, 2003, 150,000 shares of preferred stock were converted to common. On November 1, 2003, 600,000 shares of preferred stock were converted to common.

During 2002, Aragorn Company granted options to its officers and key employees to purchase 500,000 shares of the company's common stock at \$20 per share. No options have been exercised to date.

During 2003, dividend payments for the Aragorn common were as follows:

First quarter	\$0.10 per share
Second quarter	\$0.10 per share
Third quarter.....	\$0.10 per share
Fourth quarter.....	\$0.10 per share

The average market price for the company's common stock during 2003 was \$25 per share. Aragorn's net income for the year ended December 31, 2003, was \$12,750,000. The effective tax rate was 30%.

Required: Compute basic and diluted EPS for the year ended December 31, 2003.