Earnings Per Share

\[ \text{Earnings Per Share} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average \# Shares of Common Stock Outstanding}} \]

If Cumulative, whether or not declared

If Noncumulative, only if declared

\begin{align*}
\text{C/S Outstanding; apply stock dividends, splits and reverse splits retroactively} \quad & \quad \text{Common Stock Subscribed} \\
\text{Common Stock Equivalents (CSE)} \quad & \quad \text{Exercisable} \\
\text{Convertible} \quad & \quad \text{Convertible} \\
\text{Options, Warrants and Rights} \quad & \quad \text{Debt, Bonds} \\
\text{Convertible} \quad & \quad \text{Equity, Preferred Stock} \\
\text{If dilutive, include in diluted EPS using the If Converted Method (Schedule II)} \quad & \quad \text{If Exercise price < AVERAGE market price, then DILUTIVE} \\
\text{If dilutive, include in diluted EPS using the If Converted Method (Schedule II)} \quad & \quad \text{If interest not paid, net of tax or dividends not paid ÷ weighted average \# of additional shares ≤ EPS without CSE, then DILUTIVE} \\
\text{If ≥ then anti-dilutive} \quad & \quad \text{If > then anti-dilutive} \\
\text{Ignore in all computations} \quad & \quad \text{Exercisable} \\
\text{Convertible} \quad & \quad \text{Convertible}
\end{align*}

Prepared by Dr. Chula King
EARNINGS PER SHARE

SCHEDULE I - TREASURY STOCK METHOD

1. Used in the computation of diluted earnings per share with respect to exercisable securities that are dilutive.

2. Impacts only the denominator, i.e., weighted average # shares of common stock outstanding.

3. Exercise is assumed to have taken place at the later of the beginning of the period or the date of issuance of the security.

4. The treasury stock method assumes that the proceeds received upon the assumed exercise of the security are immediately used to buy the company's common stock on the open market at the average market price.

5. The weighted average # shares of common stock outstanding (denominator) is adjusted by adding to it the weighted average net increase in the number of shares outstanding (# shares assumed on exercise - # shares repurchased). Incorporate in diluted earnings per share calculation before any consideration of convertible securities.

SCHEDULE II - IF CONVERTED METHOD

1. Used in the computation of diluted earnings per share with respect to convertible securities that are dilutive.

2. Impacts both the numerator and the denominator of the earnings per share computation.

3. Conversion is assumed to have taken place at the later of the beginning of the period or the date of issuance of the security.

4. The net income figure (numerator) is adjusted by adding back any interest expense, net of tax on convertible bonds, and/or any dividends on convertible preferred stock, if the security is dilutive.

5. The weighted average # shares of common stock outstanding (denominator) is adjusted by adding to it the weighted average number of shares assumed to have been issued on conversion.

6. If multiple convertible securities, determine conversion ratio for each security (interest net of tax ÷ weighted average # shares issued on conversion) or (dividends not paid ÷ weighted average # shares issued on conversion).

   a. Rank conversion ratio from smallest to largest.

   b. Incorporate in earnings per share calculation from smallest to largest, until resultant earnings per share calculation is larger than the previous one.