

## CHAPTER 1 ANSWERS AND RATIONALE

- 1) Calculation of fully diluted shares outstanding

$$\begin{aligned} &= \text{Net New Shares From Options} + \text{Basic Shares Outstanding} \\ &= 1.500 \text{ million} + 98.500 \text{ million} \end{aligned}$$

$$\begin{aligned} &= \text{Shares from In-the-Money Options} - \text{Shares Repurchased} \\ &= 2.750 \text{ million} - 1.250 \text{ million} \end{aligned}$$

$$\begin{aligned} &= \text{Total Option Proceeds} / \text{Current Share Price} \\ &= \$62.5 \text{ million} / \$50.00 \end{aligned}$$

$$= \text{Total In-the-Money Shares}$$

(\$ in millions, except per share data; shares in millions)

### Calculation of Fully Diluted Shares Outstanding

Basic Shares Outstanding	98.500
Plus: Shares from In-the-Money Options	2.750
Less: Shares Repurchased	(1.250)
<b>Net New Shares from Options</b>	<b>1.500</b>
Plus: Shares from Convertible Securities	-
<b>Fully Diluted Shares Outstanding</b>	<b>100.000</b>

### Options/Warrants

Tranche	Number of Shares	Exercise Price	In-the-Money Shares	Proceeds
Tranche 1	1.250	\$10.00	1.250	\$12.5
Tranche 2	1.000	30.00	1.000	30.0
Tranche 3	0.500	40.00	0.500	20.0
Tranche 4	0.250	60.00	-	-
Tranche 5	-	-	-	-
<b>Total</b>	<b>3.000</b>	<b>-</b>	<b>2.750</b>	<b>\$62.5</b>

$$\begin{aligned} &= \text{Tranche 1 In-the-Money Shares} \\ &+ \text{Tranche 2 In-the-Money Shares} \\ &+ \text{Tranche 3 In-the-Money Shares} \\ &= 1.250 \text{ million} + 1.000 \text{ million} + 0.500 \text{ million} \end{aligned}$$

$$\begin{aligned} &= \text{IF}(\text{Weighted Average Strike Price} < \text{Current Share Price}, \text{display Number of Shares}, \text{otherwise display 0}) \\ &= \text{IF}(\$10.00 < \$50.00, 1.250, 0) \end{aligned}$$

$$\begin{aligned} &= \text{Tranche 1 In-the-Money Proceeds} \\ &+ \text{Tranche 2 In-the-Money Proceeds} \\ &+ \text{Tranche 3 In-the-Money Proceeds} \\ &= \$12.5 \text{ million} + \$30.0 \text{ million} + \$20.0 \text{ million} \end{aligned}$$

$$\begin{aligned} &= \text{IF}(\text{In-the-Money Shares} > 0, \text{then In-the-Money Shares} \times \text{Weighted Average Strike Price}, \text{otherwise display 0}) \\ &= \text{IF}(1.250 > 0, 1.250 \times \$10.00, 0) \end{aligned}$$