EPS COMPUTATION OF BASIC AND DILUTED EPS

I am having difficulty **with letter c only.** We were told that the amount of Diluted shares on part c is $11,900,000. I have answers for letter a and b. But I do not get why we have to multiply the stocks by $.75. I am hoping someone can explain me why we are using these numbers? See below for the completed problem.

1. The number of shares used to compute basic earnings per share is 6,736,000.
2. Number of shares to compute diluted earnings per share is 7,891,000
3. ?????????????

After-tax net income $13,550,000

Preferred stock dividends

March 31 (700,000 X $.75) $ 525,000

June 30, September 30,

and December 31

(500,000 X $.75 X 3) 1,125,000 1,650,000

Adjusted net income $11,900,000



