

- 1) A convertible bond has a \$1,000 face value (a.k.a. par value) and a conversion ratio of 50 shares of common stock for each convertible bond. What is the conversion price?

$$\text{Conversion price} = \frac{\text{bond par value}}{\text{conversion ratio}} = \frac{\$1000}{50} = \underline{\$20 \text{ Conversion price}}$$

- 2) A convertible bond has a \$1,000 face value and a conversion price of \$25 per share of common stock. What is the conversion ratio?

$$\text{Conversion ratio} = \frac{\text{bond par value}}{\text{conversion price}} = \frac{\$1000}{\$25} = \underline{40 \text{ shares per bond Conversion price}}$$

- 3) A convertible bond has a \$1,000 face value, is selling for \$1,300, and has a conversion ratio of 40 shares of common stock for each convertible bond. If the stock price is currently selling at \$30, what is the conversion value? What is the conversion premium?

$$\text{Conversion value} = \text{price of stock} * \text{conversion ratio} = \$30 * 40 = \underline{\$1200 \text{ Conversion value}}$$

$$\text{Conversion premium} = \text{market price of convertible bond} - \text{conversion value} = \$1300 - \$1200 = \underline{\$100 \text{ Conversion premium}}$$

conversion price = bond par value / conversion ratio

conversion ratio = bond par value / conversion price

conversion value = price per share of stock \* conversion ratio

conversion premium = market price of security - conversion value