

# HALLIBURTON

10200 BELLAIRE HOUSTON, TX 77072

April 16, 2004

Ms. Suzanne Q. Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Letter of Comment No: 24  
File Reference: 1200-200  
Date Received: 4/16/04

**Exposure Draft: Proposed FASB Statement, *Earnings per Share*, an amendment of FASB Statement No. 128 (File Reference No. 1200-200)**

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the exposure draft (ED) of the FASB's proposed Statement, *Earnings per Share, an amendment of FASB Statement No. 128*. We support the Board's ongoing efforts to converge with international financial reporting standards and concur with several of the proposed changes in the ED. However, we are concerned that the elimination of the provision that allows an entity to rebut the presumption that contracts with the option of settling in either cash or stock will be settled in stock will create situations in which the diluted earnings per share does not represent the true potential dilution as intended by a company. Our specific comments on the ED are discussed below.

## **Computational guidance for calculating the number of incremental shares included in diluted shares when applying the treasury stock method**

We agree with the proposal that the number of incremental shares included in quarterly and year-to-date diluted earnings per share should be computed using the average market price of common shares for the quarterly and year-to-date periods, respectively (paragraph 46 of the ED and proposed changes to illustration 1 in paragraph 148 of Statement 128).

**Eliminating the provision that allows an entity to rebut the presumption that contracts with the option of settling in either cash or stock will be settled in stock**

We disagree with the proposed change to paragraph 29 of the Statement 128 (contracts that may be settled in stock or cash) to require that (1) it should be assumed (replacing *presumed*) that the contract would be settled in common stock and (2) the resulting potential common shares would be included in diluted earnings per share if the effect is dilutive.

We believe that if a contract allows the issuer to settle the contract in cash or common stock and the issuer intends to settle the contract in cash, including the amount that could be settled in common stock in diluted earnings per share would not reflect the true economics of the contract. For example, a company may enter into a convertible debt instrument so as to receive a more favorable interest rate than a non-convertible security. The convertible security allows for the company to settle the debt in cash or stock. If the company intends to and then does settle the convertible debt in cash, under the proposal any reported diluted earnings per share numbers would have been overstated.

This proposal will create a "bright line" rule in the literature at a time when the Securities and Exchange Commission believes accounting literature should be based more on objectives or concepts rather than rules based.

If the option of settlement is in control of the issuer and the issuer has clear intentions to settle in cash, we believe the inclusion of those shares in the EPS calculation is inappropriate and creates further separation between GAAP and economics of the transaction. We believe the FASB could better address this issue through improved disclosure requirements regarding management's intention to settle the security in cash.

**Requirement that shares that will be issued on conversion of a mandatorily convertible security be included in the weighted average number of ordinary shares outstanding used in computing basic earnings per share from the date when conversion becomes mandatory**

We agree that for purposes of calculating basic earnings per share, mandatorily convertible securities should be treated as shares outstanding from the date on which they become mandatorily convertible. Once the shares become mandatorily convertible, the potential for dilution has been resolved, and it is appropriate to reflect those securities in basic and diluted earnings per share.

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**Effective date and transition**

We agree with the Board's conclusion that retrospective application of the proposal is appropriate as retrospective application increases the comparability of earnings per share amounts among reporting periods. Additionally, retrospective application is consistent with the treatment of other changes that affect the earnings per share calculation.

\* \* \* \* \*

If you have questions about our comments or wish further to discuss any of the matters addressed herein, please contact Mark McCollum at (713) 575-4450.

Sincerely,

/s/ Mark McCollum  
Senior Vice President and Chief Accounting Officer  
Halliburton Company