

alleging that, by failing to disclose this material change in its accounting until March 2000, the company misled investors and violated federal securities laws.

3. Robert Charles Muchmore, Jr., was Halliburton's controller when the change in Halliburton's claims recognition practice was initiated. Muchmore, whose principal duties included Halliburton's financial reporting, failed, over a two-year period, to take appropriate action to cause Halliburton to disclose this change.

4. In the interest of protecting the public against misleadingly incomplete financial disclosures by public companies, the Commission brings this action seeking civil money penalties of \$7.5 million against Halliburton and \$50,000 against Muchmore. As part of a global settlement, the defendants also have agreed to consent, without admitting or denying the findings therein, to entry of a cease-and-desist order by the Commission.

JURISDICTION AND VENUE

5. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77v(a)] and Section 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78aa].

6. Defendants have, directly and indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in connection with the transactions described in this Complaint.

7. Venue lies in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa] because Halliburton is headquartered in Houston, Texas, and certain of the acts and transactions described herein took place in Houston.

DEFENDANTS

8. **Halliburton** is a Delaware corporation and its securities are registered with the Commission under Section 12(b) of the Exchange Act and trade on the New York Stock Exchange. From at least 1997 to 1999 (the “relevant period”) Halliburton had two primary reporting segments, the Energy Services Group and the Engineering and Construction Group. The Energy Services Group provides exploration and logistical solutions for the exploration, development and production of oil and gas. Brown and Root Energy Services (“BRES”) was a business unit of the Energy Services Group. The Engineering and Construction Group (“E&C”) provides a wide range of industrial construction services to energy, industrial and government customers.

9. **Muchmore**, age 50, is a resident of Houston, Texas. During the relevant period, Muchmore was the controller of Halliburton. As controller, Muchmore’s principal duties included Halliburton’s accounting and financial reporting. Although no longer Halliburton’s controller, Muchmore remains a Halliburton employee.

FACTS

Halliburton's E&C Business

10. Prior to mid-1997, the business unit (BRES) and reporting segment (E&C) generally conducted business under two types of contracts: “cost-plus” or “fixed-fee.” Cost-plus contracts provide for reimbursement to the contractor of all reasonable costs, plus an agreed-upon profit payable to the contractor. Under fixed-fee contracts, contractors perform for a fixed, agreed-upon fee intended by the parties to encompass all reasonable costs foreseen at the time of the contract’s execution. The contractor’s profit equals the margin by which the fee exceeds the contractor’s costs; if those costs exceed

the fee, the contractor incurs a loss on the contract. Fixed-fee contracts offer, therefore, an opportunity to make larger profits – assuming the contractor can control its costs; conversely, fixed-fee contracts expose the contractor to greater risk of losses in the event that the contractor cannot control costs or incurs unforeseen costs. Under either type of contract, the contractor may incur costs that were not envisioned when the contract was executed; however, under a cost-plus contract, the contractor is more likely to recoup from the customer those unforeseen costs.

11. In mid-1997, BRES commenced several large-scale fixed-fee Engineering, Procurement and Construction ("EPC") projects that, according to the company, were greater in scope and complexity than the company's previous fixed-fee contracts. The earliest of these projects involved the construction of a gas production plant in the Middle East; the company's customer was a joint venture between a national oil company and a multinational oil company. The contract called for completion of the project by mid-1999, at a cost of approximately \$169 million.

12. By the fourth quarter of 1997, BRES' estimated cost overruns placed the project in an approximate \$20 million loss position, as a result of which Halliburton recorded \$20 million of losses in the fourth quarter of 1997. The \$20 million loss gave rise to a corresponding \$20 million reduction in Halliburton's fourth quarter 1997 operating income. BRES continued to estimate cost overruns on certain EPC contracts throughout 1998 and 1999.

Halliburton Changes Its Accounting for Cost Overruns

13. For at least five consecutive years, dating back to 1993, Halliburton disclosed in its Forms 10-K filed with the Commission that "claims for additional

compensation are recognized during the period such claims are resolved." This statement of practice never varied during that period. Pursuant to the practice, before the claim was resolved, the company generally recorded losses caused by project cost overruns; only after the claim was resolved would the company recognize the claim as an offset against a project's cost overruns.

14. In the second quarter of 1998, the company changed its accounting practice by offsetting cost overruns on the BRES EPC contracts with estimated recoveries on claims that had not been resolved with customers. Although permitted under GAAP in appropriate circumstances, this practice was a departure from Halliburton's longstanding stated practice of recognizing income only from "resolved" (i.e., "approved") claims. Under this new practice, the company began offsetting project cost overruns with revenue from unapproved claims in instances in which the company believed that the claims were probable of collection, and reliably estimable "unapproved claims." As a result of the change in accounting practice, cost overruns and resulting losses on several EPC contracts in the BRES business unit were reduced or eliminated. By reducing or eliminating the losses, Halliburton increased its income.

15. The company's change in its claims recognition practice resulted in a material increase in Halliburton's publicly disclosed income, as set forth in its second and third quarter 1998 Forms 10-Q, its 1998 Form 10-K, and its first, second and third quarter 1999 Forms 10-Q; the change also resulted in materially more favorable publicly-disclosed 1997-1998 quarter-to-quarter income comparisons.

16. Halliburton failed to inform investors, until March 2000, when the company filed its 1999 Form 10-K, that the unapproved claims on the BRES EPC contracts were a

component of the company's earnings. In the interim six quarters none of Halliburton's periodic Commission filings disclosed the change in the company's claims recognition practice or the impact of that change on the company's financial presentation. Additionally, in Halliburton's 1998 Form 10-K, the company removed the claims recognition statement that had appeared in earlier Halliburton Forms 10-K. Halliburton did not explain in the filing, or in any other form of public statement, the reason for its removal. Moreover, Halliburton did not, in its 1998 Form 10-K, replace the removed accounting statement with an affirmative statement disclosing the company's new accounting practice.

The Accounting Change Increased Halliburton's Income

17. Halliburton's recording in 1998 and 1999 of unapproved claims on the BRES EPC contracts resulted in a material increase in the income the company reported in its Forms 10-Q for the second and third quarters of 1998, its Forms 10-Q for the first, second and third quarters of 1999, and in the company's 1998 Form 10-K. That impact is set forth in the table, below:

Impact on Pre-tax Income (in millions)

| Year | Filing | Reported Pre-Tax Income | Reported Pre-Tax Income Without Component of Unapproved Claim Revenue | \$ Difference | % Difference |
|------|----------------|-------------------------|---|---------------|--------------|
| 1998 | Form 10-Q [Q2] | \$228.70 | \$183.30 | \$45.40 | 24.8% |
| | Form 10-Q [Q3] | (\$609.50) | (\$646.20) | \$36.70 | 5.7% |
| | Form 10-K | \$278.80 | \$190.90 | \$87.90 | 46.1% |
| 1999 | Form 10-Q [Q1] | \$149.00 | \$129.80 | \$19.20 | 14.8% |
| | Form 10-Q [Q2] | \$146.00 | \$135.80 | \$10.20 | 7.5% |
| | Form 10-Q [Q3] | \$103.00 | \$92.30 | \$10.70 | 11.6% |

Halliburton Did Not Disclose the Accounting Change

18. The references to Halliburton's income, and the 1997-1998 income comparisons contained in Halliburton's second and third quarter 1998 Forms 10-Q, earnings releases, and analyst teleconferences, were materially misleading. The references were misleading for two reasons: First, for at least five consecutive years, Halliburton publicly presented in its Commission filings a statement of claims recognition practice that never varied in content: "Claims for additional compensation are recognized during the period such claims are resolved." Despite changing the accounting practice in mid-1998, the company did not disclose the change in that quarter. In fact, it was not until the passage of six quarters that Halliburton disclosed the change in its 1999 Form 10-K, filed in March 2000. Second, Halliburton's statement of its historical claims recognition practice was not expunged from the mix of public information, because Halliburton incorporated the statement by reference in its Forms 10-Q for the second and third quarters of 1998.

19. Thus, the only statement of Halliburton's claims recognition practice in the public domain during the second and third quarters of 1998 was that the company recognizes claims "during the period such claims are resolved." This statement of accounting practice, out-of-date with respect to the BRES EPC contracts, was incorporated by reference in, and rendered materially misleading, the public information Halliburton issued regarding its income in the second and third quarters of 1998, including information in its second and third quarter 1998 Forms 10-Q, earnings releases and analysts' teleconferences.

20. One of defendant Muchmore's chief responsibilities was to ensure the accuracy of the Forms 10-Q, which he reviewed and signed. In addition, Muchmore, with the assistance of Halliburton finance personnel under his supervision, prepared Halliburton's quarterly earnings releases, together with the scripts that were used by several Halliburton senior officers in the company's quarterly analysts' teleconferences – that Muchmore attended.

Misleading Statements and Omissions

The Second Quarter of 1998 Form 10-Q

21. Halliburton's Form 10-Q for the second quarter of 1998, filed on June 30, 1998, did not disclose that the offset of cost overruns by unapproved claims resulted in income to the company in the second quarter 24.8% greater than without the offset. In addition, the Income Statement in the filing reflected a 34% 1997-1998 quarter-to-quarter increase in Halliburton's net income; without taking into account unapproved claims, the quarter-to-quarter increase would have been only 6.7%. The company also stated in the filing's "Results of Operations" discussion that Energy Services Group (the division encompassing BRES) experienced a 24%, 1997-1998 quarter-to-quarter increase in operating income. The filing contained no clarification that, without unapproved claims, Energy Services Group's operating income would have actually decreased 4.5%.

The Second Quarter of 1998 Earnings Release

22. The second quarter earnings release omitted the same information. The company's second quarter 1998 earnings release, issued July 22, 1998, is entitled: "Halliburton 1998 Second Quarter Net Income Up 34 Percent." As previously mentioned, without unapproved claims, Halliburton's net income increased only 6.7%. The company

also stated in the release: “The Energy [Services] Group’s 1998 second quarter operating income increased 24 percent to \$198.3 million compared to the prior year period.” The release contained no clarification that, without unapproved claims, the Energy Group’s operating income actually decreased 4.5%.

23. Halliburton also stated in the release that “for the six-month period ending June 30, 1998, net income increased 38% to \$254.3 million.” The release contained no clarification that without unapproved claims, net income over the six-month period would have increased only 22.4% in 1998, as compared to 1997, not 38%.

24. The company also stated in its second quarter earnings release that “Halliburton Company report[ed] 1998 second quarter net income of \$136.5 million (\$.51 per share diluted), an increase of 34 percent compared to \$101.9 million (\$.40 per share diluted) earned in the 1997 second quarter.” The earnings release contained no clarification that, without unapproved claims, Halliburton’s earnings-per-share would have been \$.41, not \$.51, which was the analysts’ consensus earnings-per-share estimate.

The Second Quarter of 1998 Analyst Teleconference

25. The company’s statements in the second quarter analyst teleconference conducted on July 22, 1998, and based on a prepared script, also omitted material information regarding unapproved claims as an offset against cost overruns. The company stated that its net income “was up 34%” as compared to the second quarter of 1997. But without unapproved claims, Halliburton’s net income in the quarter increased only 6.7%.

26. The company also indicated in the teleconference that the Energy Group’s second quarter 1998 operating income increased 24% to \$198.3 million, compared to the

second quarter of 1997. Investors were not told that without unapproved claims, the Energy Group's operating income would have actually decreased 4.5%, as compared to the second quarter of 1997.

27. Halliburton further claimed, again based on the script, that the company's earnings-per-share for the quarter was \$.51. The company failed to clarify that without unapproved claims, Halliburton's earnings-per-share would have been only \$.41.

28. The company also reported in the teleconference BRES' operating results. The company stated that BRES' operating income had increased 40% over the second quarter of 1997. There was no clarification that without unapproved claims, BRES' operating income would have actually decreased approximately 148%. Moreover, the company failed to clarify that the 5.5% operating income margin for BRES would have been -2% without unapproved claims.

The Third Quarter of 1998 Form 10-Q

29. Halliburton's Form 10-Q for the third quarter of 1998, filed on September 30, 1998, did not disclose that the offset of cost overruns by unapproved claims resulted in income to the company in the third quarter 5.7% greater than without the offset. In addition, the company included in the Management Discussion & Analysis section of the filing, entitled "Results of Operations," a statement that "Energy Services Group's operating income decreased 8% to \$262.7 million in the third quarter of 1998 compared with \$287 million in the same quarter of the prior year." There was no clarification in the Form 10-Q that without the unapproved claims, the Energy Services Group's operating income would have actually decreased 21% in 1998, compared to the third quarter of 1997.

The Third Quarter of 1998 Earnings Release

30. The third quarter earnings release omitted the same information. In the company's third quarter 1998 earnings release, issued on October 29, 1998, the company states: "The Energy Services Group's 1998 third quarter operating income was \$263 million, off eight percent from the 1997 quarter." The release contained no clarification that without unapproved claims, Energy Services Group's operating income would have decreased 21% to \$226 million.

31. The company also stated in the release: "Halliburton Company announces that the company earned \$195 million (\$.44 per diluted share) in the 1998 third quarter, compared to \$218 million (\$.50 per diluted share) in the 1997 third quarter, before recognition of special charges." The company did not mention in the release that without unapproved claims, Halliburton would have earned only \$172 million – a difference of 13.3%. And the earnings release contained no clarification that, without unapproved claims, Halliburton's earnings-per-share for the quarter would have been \$.39, not \$.44, which was the analysts' consensus estimate.

The Third Quarter of 1998 Analyst Teleconference

32. The company's statements in the third quarter analyst teleconference, conducted on October 29, 1998, and again based on the prepared script, also omitted material information regarding the unapproved claims component of Halliburton's earnings. The company states: "from an operating income standpoint for the Energy Services Group, operating income declined 9% to \$263 million for the quarter." Investors were not told that without unapproved claims, the Energy Services Group's operating income would have declined 21%.

33. The company also reported “our [Halliburton’s] earnings per share were \$.44.” The company failed to clarify that, without unapproved claims, Halliburton’s earnings-per-share would have been only \$.39.

34. The company further stated at the teleconference that “revenues for this group [BRES] are up 33%. We continue to be very, very pleased with the direction and growth of this aspect of our business even in a down market. And I think it [BRES] continues to be one of the real hidden stars within the Halliburton portfolio of businesses that we have.” The company did not mention that unapproved claims, which offset cost overruns, were a positive component of Halliburton’s earnings.

35. The script further claimed “for [BRES], operating income increased 17% over the prior year. Margins are now starting to get back into the territory that we thought they would toward the end of the year with its [BRES’] margins for the third quarter being 8.6%.” There was no clarification that, without unapproved claims, BRES’ operating income would have actually decreased approximately 54% (from \$52.7 million to \$24 million), not increased 17% (from \$52.7 million to \$60 million). Moreover, without unapproved claims, BRES’ operating margins would have been only 3.6%.

Halliburton’s Ultimate Disclosure Was Misleading

36. Ultimately, in the 1999 Form 10-K Halliburton filed with the Commission on March 14, 2000, Halliburton disclosed for the first time the change it had made, six quarters earlier, in its accounting for unapproved claims. In the filing, the company stated that, in 1998, the company accrued \$89 million in unapproved claims, and in 1999, \$98 million in unapproved claims.

37. The company did not disclose in the 1999 Form 10-K \$34 million of unapproved claims that the company recognized in 1999 in connection with joint venture projects. This omission flattened the ascending curve of unapproved claims recognized by the company and instead of reporting \$132 million in unapproved claims in 1999, the company reported \$98 million – a \$9 million, as opposed to \$43 million increase over the 1998 figure.

FIRST CLAIM

Violations of Section 17(a)(2) of the Securities Act

(Against Halliburton)

38. Paragraphs 1 through 37 are realleged and incorporated by reference.

39. Defendant Halliburton, in connection with the offer and sale of securities, obtained money or property by means of an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

40. Defendant Halliburton committed the acts alleged herein negligently.

41. By reason of the foregoing, defendant Halliburton violated Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

SECOND CLAIM

Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 Thereunder

(Against Halliburton)

42. Paragraphs 1 through 37 are realleged and incorporated by reference.

43. Defendant Halliburton, in the manner set forth above, failed to file with the Commission, in accordance with rules and regulations the Commission has prescribed,

information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with an application or registration statement filed pursuant to Section 12 of the Exchange Act and annual reports and quarterly reports as the Commission has prescribed, and to include in such reports all material information as necessary to make the required statements, in light of the circumstances, not misleading.

44. By reason of the foregoing, Halliburton violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13 thereunder. [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

THIRD CLAIM

Aiding and Abetting Halliburton's Violations of Section 17(a)(2) of the Securities Act

(Against Muchmore)

45. Paragraphs 1 through 37 are realleged and incorporated by reference.

46. Based on the conduct alleged herein, Halliburton negligently violated Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

47. Defendant Muchmore, acting alone or in concert with others, in the manner set forth above, knowingly provided substantial assistance to Halliburton in connection with its violations of Section 17(a)(2) as alleged herein.

48. By reason of the foregoing, Muchmore aided and abetted Halliburton's violations of Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

FOURTH CLAIM

Aiding and Abetting Halliburton's Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 Thereunder

(Against Muchmore)

49. Paragraphs 1 through 37 are realleged and incorporated by reference.

50. Based on the conduct alleged herein, Halliburton violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13 thereunder. [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

51. Defendant Muchmore, acting alone or in concert with others, in the manner set forth above, knowingly provided substantial assistance to Halliburton, as an issuer of a security registered pursuant to Section 12 of the Exchange Act, in its failing to file with the Commission, in accordance with rules and regulations the Commission has prescribed, information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with an application or registration statement filed pursuant to Section 12 of the Exchange Act and annual reports and quarterly reports as the Commission has prescribed.

52. By reason of the foregoing, Muchmore aided and abetted Halliburton's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

PRAYER FOR RELIEF

The Commission respectfully requests that the Court:

I.

Find that the defendants committed the alleged violations.

II.

Enter a final judgment ordering defendant Halliburton to pay a civil money penalty in the amount of \$7,500,000 pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] and Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

III.

Enter a final judgment ordering defendant Muchmore to pay a civil money penalty in the amount of \$50,000 pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] and Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

Respectfully submitted,

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