

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 49390 / March 10, 2004**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 1972 / March 10, 2004**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-11427**

<p><b>In the Matter of</b></p> <p style="text-align:center"><b>BJ Services Company,</b></p> <p><b>Respondent.</b></p>
---

**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against BJ Services Company (“BJ Services” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order, Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds that:

## RESPONDENT

1. BJ Services, a Delaware corporation based in Houston, Texas, provides oil field services, products, and equipment to petroleum producers worldwide. Its common stock is registered under Section 12(b) of the Exchange Act and is traded on the New York Stock Exchange.

## OVERVIEW

2. During 2001, BJ Services, through its wholly owned Argentinean subsidiary B.J. Services, S.A. ("BJSA"), made illegal or questionable payments, totaling approximately 72,000 pesos<sup>1</sup> to Argentinean customs officials. Further, from 1998 through April 2002 certain undocumented or improperly characterized payments were made totaling approximately 151,000 pesos. In certain instances, entries were made in BJSA's books and records to conceal the payments. During the same period, BJ Services experienced certain breaches in the existing accounting policies, controls and procedures in certain areas of its Latin American Region.<sup>2</sup>

## JANUARY 2001 PAYMENT

3. In January 2001, the Controller for BJSA learned that equipment BJSA was attempting to import into Argentina, and which was being awaited by BJSA for use on a project for a customer, had not been properly imported under Argentina's customs laws and was being held by a customs official.<sup>3</sup> The Controller also learned that the customs official had offered to release the equipment and overlook the customs law violation, if he were paid 75,000 pesos.

4. The customs official stated that unless he received the payment, the equipment would be deported and BJSA would: (i) forfeit the import taxes it previously paid to import the equipment, 71,575 pesos; (ii) pay a penalty of 1 to 5 times the value of the equipment, valued at \$122,420; and (iii) pay importation taxes again when it properly re-imported the equipment. In addition, if the payment was not made, BJSA would also have: incurred freight charges to export and then re-import the equipment; risked losing the business and accompanying revenue the equipment would have immediately begun generating; and possibly impaired the relationship with the customer awaiting the work to be performed with the equipment, resulting in an inability to retain that customer's business.

---

<sup>1</sup> Until January 4, 2002, the Argentinian peso was tied to the dollar, one to one, so that for almost all of the period addressed herein the value of the Argentinian peso was equal to the value of the U.S. dollar.

<sup>2</sup> BJ Services' operations are divided among international, geographical regions - for example, the United States/Mexico Region, the Latin American Region, and the Middle East Region, etc. - the results of which are consolidated for financial reporting purposes.

<sup>3</sup> The term "equipment" used when discussing the January 2001 payment actually refers to a component part that was coming from BJ Services' Venezuelan subsidiary and was meant for use in a larger piece of equipment at an oil well in Argentina. BJSA was attempting to import it into the country on a permanent basis, and only new or rebuilt equipment may be permanently imported into Argentina. The component part was used and had not been rebuilt and therefore was not permitted to be imported on a permanent basis, but only on a temporary basis.

5. Shortly after learning of the customs official's offer, the Controller contacted the Country Manager for BJ Services' Argentinean operations to obtain guidance on how to proceed.<sup>4</sup> The Country Manager told the Controller that he would check with BJ Services' Regional Manager for Latin American operations in order to get approval.<sup>5</sup> The Country Manager later called the Controller back and told him that: he had checked with the Regional Manager; the payment had been approved; and they should attempt to negotiate with the customs official to obtain a lower payment amount.

6. Negotiations with the customs official ensued, through a third party agent previously hired to assist BJSa with Argentinean customs matters, and the customs official eventually agreed to reduce the amount to 65,000 pesos. Two BJSa checks totaling 65,000 pesos were issued in the name of a lower-level BJSa employee. She cashed the checks and provided the proceeds to the customs official.<sup>6</sup> The equipment was then released to BJSa.

7. The Controller recorded the payment on BJSa's books as a debit to a "Vendor Payable Account" with a corresponding entry of 65,000 pesos due from BJ Services' Panamanian subsidiary in an attempt to have the payment charged to BJ Venezuela. The Panamanian subsidiary then recorded a payable to BJSa, improperly attaching the previously paid import tax invoice for the equipment as support. The 65,000 pesos expense was then allocated to Argentina for internal management reporting purposes by BJ Services' Panamanian subsidiary, which regularly accounts for and allocates expenses among BJ Services' various Latin American subsidiaries. The amount was improperly characterized as "Amortization – Fixed Costs."

## **MENDOZA PAYMENT**

8. In September 2001, BJSa's former Treasury and Purchasing Manager, who was then in charge of customs matters for BJSa, authorized payments totaling 7,000 pesos to an Argentinean customs official in Mendoza, Argentina so that the official would overlook a previous customs violation by BJSa and not fine the company.<sup>7</sup> In exchange for the payments, the customs official created false documentation so that the customs violation would not be uncovered. The payments were improperly characterized on BJSa's books and records as import duties paid to the third party customs agent. BJSa's books and records did not provide accurate support for those payments.

---

<sup>4</sup> The Controller did not normally have responsibility for customs issues, but handled this matter for a vacationing colleague. He did not believe he had authority to approve the payment and contacted the Country Manager to get approval. The Country Manager was employed by Respondent (not by BJSa).

<sup>5</sup> The Regional Manager was also employed by Respondent (not by BJSa).

<sup>6</sup> This payment was made in violation of BJ Services' existing policies prohibiting payments of the kind made to the customs official.

<sup>7</sup> These payments were also made in violation of BJ Services' existing policies prohibiting payments of the kind made to the customs official. The former Treasury and Purchasing Manager was a mid-level employee of BJSa. There is no indication that anyone employed by Respondent, or who was part of BJSa's senior management, approved the payment.

## **FACILITATION PAYMENT**

9. In October 2000, BJSAs former Treasury and Purchasing Manager approved a 10,994 peso payment to an official employed by Argentina's Secretary of Industry and Commerce.<sup>8</sup> The official was reviewing whether equipment being imported into Argentina by BJSAs could be legally imported into the country. While BJSAs personnel believed that the equipment could be imported under Argentina's laws, the payment was made to expedite the approval process. The payment was recorded in BJSAs books and records as an importation cost with an offsetting charge to the Panamanian subsidiary, and was improperly supported by an invoice from the third party customs agent for unspecified services.

## **INTERNAL CONTROLS ISSUES**

10. From 1998 through April 2002, certain areas of BJ Services' Latin American Region experienced certain breaches of its existing accounting policies, controls and procedures. An internal evaluation of Latin America's Regional Manager in 2000 noted that "Management of the [Latin American Region's] financial and accounting procedures has been extremely lackadaisical in the past several years ..."<sup>9</sup>

## **INTERNAL INVESTIGATION AND DISCOVERY OF OTHER PAYMENTS**

11. In June 2002, while investigating seemingly unrelated financial issues in Argentina, BJ Services' senior management learned that violations of the Foreign Corrupt Practices Act might have occurred in Argentina.<sup>10</sup> At the direction of the board of directors, a full internal investigation ensued. The investigation provided details of the payments noted above. The internal investigation also uncovered an aggregate of 151,406 pesos in additional undocumented or improperly characterized payments made by BJSAs during the period from January 1998 through April 2002, the largest of which was 10,994 pesos, with a few in the 3,000 to 7,400 pesos range, and the remainder under 3,000 pesos. Most of the payments were to the third party customs agent for unspecified customs charges and contained no supporting documentation.

---

<sup>8</sup> In this instance, as in the previous, there is no indication that anyone employed by Respondent, or who was part of BJSAs senior management, approved the payment.

<sup>9</sup> As a consequence of the breaches, BJ Services later replaced a Country Manager for failure to follow procedures for capital expenditures approval. In addition, BJ Services took corrective action with respect to regional management in January 2002. In April 2002, BJ Services' senior management uncovered all of the facts noted above and took further corrective action as noted subsequently herein.

<sup>10</sup> BJ Services was investigating the possible unauthorized use of funds in Argentina by BJ Services and BJSAs personnel. The Foreign Corrupt Practices Act was enacted by Congress in 1977 after uncovering a series of questionable payments to foreign government officers by prominent U.S. corporations. Foreign Corrupt Practices Act of 1977, Exchange Act Release No. 34-17500 (Jan. 29, 1981). The purpose of the act was to prohibit such payments and require accurate accounting records and controls to ensure "that assets be safeguarded from unauthorized use, that corporate transactions conform to managerial authorizations, and that records be accurate." Id. at p. 3.

## **COOPERATION AND REMEDIAL ACTIONS BY BJ SERVICES' MANAGEMENT**

12. Upon discovery of the aforementioned payments, BJ Services began an internal investigation of such payments and their accounting, engaged outside counsel in both the U.S. and Argentina and disclosed the matters to its outside auditors and its full board of directors. Upon completion of BJ Services' internal investigation, BJ Services voluntarily and promptly approached the Commission's staff, notified the staff of the results of the investigation, and cooperated with the staff's investigation, including declining to assert its attorney-client privilege with respect to communications during the relevant time period.

13. Upon completion of BJ Services' internal investigation, BJ Services also undertook certain remedial actions. In particular, the company: arranged for proper classification of the equipment associated with the January 2001 payment to Argentine customs; revised the accounting treatment of the subject payments and included the appropriate supporting documentation in the accounting records; replaced the management of the Latin American Region; approved the expansion of its existing corporate internal audit department and placed an additional audit manager in the Latin American Region reporting directly to BJ Services' Director of Internal Audit; retained an additional independent auditor to conduct a forensic audit of its books and records in Argentina; and adopted an improved and expanded Foreign Corrupt Practices Act education and prevention program introduced in all of its regions worldwide.

## **FEDERAL SECURITIES LAW VIOLATIONS**

14. As a result of the conduct described above, BJ Services violated Section 30A of the Exchange Act, which makes it unlawful, in order to obtain or retain business, for any issuer with a class of securities registered pursuant to Section 12 of the Exchange Act to give, or authorize the giving of, anything of value to any foreign official for purposes of influencing the official or inducing the official to act in violation of his or her lawful duties.

15. As a result of the conduct described above, BJ Services violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

16. As a result of the conduct described above, BJ Services violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to, among other things, provide reasonable assurances that transactions are recorded in accordance with management's general or specific authorization and access to assets is permitted only in accordance with management's general or specific authorization.

## **IV.**

17. In determining to accept the Offer, the Commission considered remedial actions promptly undertaken by the Respondent and cooperation afforded the Commission staff once the board of directors and senior management learned of the matters discussed herein.

V.

In view of the foregoing, and in consideration of BJ Services' cooperation with the Commission's investigation, the Commission deems it appropriate to impose the sanctions specified in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

Respondent cease and desist from committing or causing any violations and any future violations of Sections 30A, 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act.

By the Commission.

Jonathan G. Katz  
Secretary