SEC Charges Halliburton and Two Former Officers for Failure to Disclose a 1998 Change in Accounting Practice

FOR IMMEDIATE RELEASE
2004-104

Halliburton's Settlement with the SEC Includes a $7.5 Million Penalty Reflecting Lapses in Conduct During the Course of the Investigation


Halliburton and Muchmore have agreed to settle the enforcement actions by consenting to a Commission order to cease and desist from committing or causing future securities law violations. Additionally, Halliburton and Muchmore have agreed to pay penalties of $7.5 million and $50,000 respectively, in a related civil action. Halliburton's penalty for the disclosure failure reflects lapses in the company's conduct during the course of the investigation, which commenced in mid-2002.

Harold F. Degenhardt, Administrator of the Commission's Fort Worth office, commented, "The SEC's action today emphasizes the importance of complete transparency in a company's financial disclosures. Important information bearing on a company's results should be clearly and timely disclosed, even if those results are calculated in accordance with Generally Accepted Accounting Principles (GAAP)."

"The penalty against Halliburton serves as yet another reminder that the Commission will not tolerate lapses by companies that serve to delay or hinder the Commission's investigative processes," said Spencer C. Barasch, enforcement head in the Commission's Fort Worth office.

The Commission approved these enforcement actions following a thorough investigation that included the review of approximately 340,000 documents and sworn testimony from 23 individuals. The company's former Chief Executive Officer, Vice President Richard B. Cheney, provided sworn testimony and cooperated willingly and fully in the investigation conducted by the Commission's career staff.

Today's enforcement actions include all of the charges that the Commission
deemed appropriate in light of the investigative record developed by its staff. These actions conclude the Commission's investigation of Halliburton's 1998 change to its accounting practice.

Halliburton provides a wide range of industrial construction services. In providing those services, Halliburton, at times, incurs cost overruns; the overruns may be recovered from Halliburton's customer depending on the terms of the construction contract and the nature of the overruns. Historically, Halliburton recognized income arising from cost overrun claims only in the financial quarter in which the claim was finally resolved with the customer. From 1993 to 1997, Halliburton had set forth this practice in its periodic filings with the Commission. In the second quarter of 1998, Halliburton changed its historical accounting practice and began recognizing revenues by offsetting losses on certain projects with revenues based on estimated probable recoveries on claims that had not been resolved with customers.

Under the new practice, Halliburton recognized revenues on certain claims that the company believed were probable of collection rather than, pursuant to the prior practice, claims that had been finally resolved with its customers. Although both of Halliburton's claims recognition practices, the historical one and the revised one, are appropriate under Generally Accepted Accounting Principles, there was a significant difference in their respective effects on Halliburton's financial presentation: the new practice reduced losses on several large construction projects. As a result, Halliburton's reported income was higher under the revised practice than it would have been under the prior practice.

Over six reporting periods, spanning approximately 18 months covering 1998 and 1999, Halliburton failed to disclose its change of accounting practice. In the absence of any disclosure, the investing public was deprived of a full opportunity to assess Halliburton's reported income — more particularly, the precise nature of that income, and its comparability to Halliburton's income in prior periods. It was not until March 2000 that Halliburton, in its 1999 Form 10-K, disclosed its change in accounting practice.

The following chart demonstrates the impact the undisclosed accounting change had on the company's pre-tax income in 1998 and 1999:

<table>
<thead>
<tr>
<th>Year</th>
<th>Filing</th>
<th>Reported Pre-Tax Income</th>
<th>Reported Pre-Tax Income — Without Component of Unapproved Claim Revenue</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Form 10-Q [Q2]</td>
<td>$228.70</td>
<td>$183.30</td>
<td>$45.40</td>
<td>24.8%</td>
</tr>
<tr>
<td></td>
<td>Form 10-Q [Q3]</td>
<td>($609.50)</td>
<td>($646.20)</td>
<td>$36.70</td>
<td>5.7%</td>
</tr>
<tr>
<td></td>
<td>Form 10-K</td>
<td>$278.80</td>
<td>$190.90</td>
<td>$87.90</td>
<td>46.1%</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These income figures appeared in Halliburton's filings with the Commission. They were also presented in the company's quarterly earnings releases and analyst teleconferences.

The Commission alleges that Morris and Muchmore were responsible for the company's failure to disclose the accounting change, over six quarters, in Halliburton's Commission filings. Additionally, Morris and Muchmore played key roles in the preparation and review of quarterly earnings releases and analyst teleconference scripts that included the affected income figures. They were, therefore, also responsible for the absence in the releases and scripts of any clarifying reference to the accounting change or its impact.

Halliburton and Muchmore neither admit nor deny the Commission's findings against them.

The enforcement action against Morris is unsettled, and has been filed in U.S. District Court in Houston, Texas.

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Additional materials:
► Administrative Proceeding Release No. 33-8452
► Litigation Release 18817