

Institutional Investor Sues Halliburton and Former KBR Unit, Alleging Litany of Misdeeds and Government Fines Has Damaged Shareholders

Complaint by Detroit police and firefighter pension fund names both companies' boards - says recklessness and lack of oversight enabled pervasive malfeasance by KBR employees; resulting fines and lawsuits harmed companies and shareholders; case filed in Texas state court

NEW YORK and HOUSTON, May 14 /PRNewswire/ -- In what is believed to be the first legal action brought by shareholders against oilfield services provider **Halliburton Company** (NYSE: **HAL**) and its one-time subsidiary **KBR, Inc.** (NYSE: **KBR**), a municipal pension fund has filed a lawsuit alleging that poor oversight and lack of internal controls at the two companies enabled a pervasive environment of misdeed and corruption, resulting in enforcement actions and substantial government penalties that have severely damaged investors' holdings.

The complaint, brought by the **Policemen and Firemen Retirement System of Detroit**, catalogs a litany of wrongdoing by KBR, including massive waste and overbilling of services provided to American forces in Iraq; bribery in Nigeria to win government contracts; and multiple instances of fraud, corruption, and misconduct in both its domestic and foreign operations.

Shareholders accuse Halliburton's board of directors of breach of fiduciary duty in failing to rein in years of shoddy business practices and criminal activity that resulted in massive fines, penalties and settlements paid to the federal government.

According to the complaint, the full extent of misdeeds was successfully hidden by the two firms until KBR was spun off as an independent company in 2006. The shareholder suit, which covers the period both before and after the spinoff, was filed in a Texas state court by leading shareholder and corporate governance law firm **Grant & Eisenhofer**, along with noted plaintiffs' counsel **The Lanier Law Firm** in Houston.

Named as defendants are former and current directors of Halliburton and KBR -- the majority of the companies' two boards -- including **Robert Crandall**, past president and chairman of American Airlines.

The complaint states, "As fiduciaries ... the Halliburton defendants were required to exercise prudent supervision over the management, policies, practices, controls, and financial and corporate affairs of Halliburton and KBR, which Halliburton controlled." The plaintiffs are asking for a jury trial and intend to seek damages.

Largest Criminal Fines Ever in an FCPA Action tied to Nigeria

Following a series of U.S. government investigations and lawsuits, Halliburton and KBR have paid more than \$650 million in fines, penalties, and settlements -- including the largest fine ever assessed by the U.S. Commerce Department and the largest settlement ever paid by U.S. companies for violations of the Foreign Corrupt Practices Act.

This past February, KBR pleaded guilty to bribing Nigerian officials and to violations of the FCPA, while both KBR and Halliburton settled related civil suits with the Securities and Exchange Commission. KBR's payment of some \$579 million in criminal fines and penalties is believed to be the largest payment ever made by a U.S. company in settling an FCPA enforcement action. Earlier, the SEC penalized Halliburton \$7.5 million for improper accounting practices that led to the company distributing materially misleading financial statements.

Former KBR Chairman Albert Stanley is serving seven years in prison for orchestrating the bribery scheme in Nigeria and receiving kickbacks. Other KBR employees pleaded guilty to accepting kickbacks or attempting to defraud the U.S. government, as well as conspiracy and bribery, and several have served prison time.

In 2006 KBR settled government contentions that it overcharged for services to peacekeeping troops in Kosovo and violated the U.S. False Claims Act by, among other things, double-billing and inflating prices of products and services.

Iraq Contracts Singled Out as "Textbook Example of Corporate Irresponsibility"

In 2007 the Special Inspector General for Iraq Reconstruction found widespread waste, mismanagement, improper documentation, and lack of oversight by KBR relating to services to American forces in Iraq, specifically regarding meals, dining facilities, and fuel imports. The two companies had already earned notorious reputations on Capitol Hill, where New Jersey Senator **Frank Lautenberg**, who serves on the Senate Appropriations Committee, commented, "Halliburton's record of overcharging, bribery, and accounting fraud recites like a textbook example of corporate irresponsibility." In 2007 the General Accounting Office recommended that a contract awarded to KBR be reconsidered.

Other incidents detailed in the complaint have previously led to government investigations and raised serious questions about Halliburton and KBR's fitness and commitment to serve American military personnel in Iraq. KBR employees admitted that troops were provided untreated and untested water from the Euphrates River. On another occasion, a KBR truck used to store corpses was later put in service to deliver ice to troops -- a clear violation of U.S. Army regulations even if the truck had been cleaned, which it had not.

The U.S. Justice Department is currently investigating Halliburton for possible illegal transactions with Iran through the company's Cayman Islands subsidiary.

The complaint concludes, "The myriad crimes and wrongdoings discussed above simply could not have happened if Defendants were doing their jobs. As officers and directors of the Companies, the Defendants were required to ensure that the Companies' internal controls were in place, functioning properly, and sufficiently strong to prevent it from committing wrongful or illegal acts."

Turning a Blind Eye to Companies' Lapses

Grant & Eisenhofer managing partner **Jay Eisenhofer** said of the allegations: "The wrongdoing by the boards of directors of Halliburton and KBR transcends negligence to a realm of pure recklessness -- a conscious decision *not* to do anything about a persistent pattern of misconduct on the part of KBR employees. If ever a board failed in its basic duties of oversight, this case sets a new standard."

Mr. Eisenhofer noted that the company's transgressions were accompanied by extensive, and highly publicized, government investigations, lawsuits, fines, guilty pleas, and even jailings of KBR officials.

"And yet the boards of both companies -- stacked with some of the most famous names in American business -- turned a blind eye," he added. "What some KBR employees did, with the knowledge and understanding of the boards of directors, can only be described as willful disregard for corporate oversight that has tarnished the reputations and prospects of these companies. Shareholders have a duty and responsibility to speak out and to demand compensation for the longtime tacit approval of such wrongdoing."

Note: **Grant & Eisenhofer P.A.** represents institutional investors and shareholders internationally in securities class actions, corporate governance actions and derivative litigation. The firm has recovered more than \$12 billion for investors in the last five years. G&E has also been selected among *The National Law Journal's* "Plaintiffs' Hot List" for the past four years, and is a member of its Hall of Fame. Risk Metrics named Grant & Eisenhofer the Number 1 law firm in average shareholder recoveries in securities class actions in 2007 and 2008. For more information, visit www.gelaw.com.

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