U.S. SECURITIES AND EXCHANGE COMMISSION

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Accounting and Auditing Enforcement Release No. 2935A / February 11, 2009

***Securities and Exchange Commission v. Halliburton Company and KBR, Inc.*, 4:09-CV-399, S.D. Tex. (Houston)**

SEC Charges KBR, Inc. with Foreign Bribery; Charges Halliburton Co. and KBR, Inc. with Related Accounting Violations — Companies to Pay Disgorgement of $177 Million; KBR Subsidiary to Pay Criminal Fines of $402 Million; Total Payments to be $579 Million

The Securities and Exchange Commission today announced settlements with KBR, Inc. and Halliburton Co. to resolve SEC charges that KBR subsidiary Kellogg Brown & Root LLC bribed Nigerian government officials over a 10-year period, in violation of the Foreign Corrupt Practices Act (FCPA), in order to obtain construction contracts. The SEC also charged that KBR and Halliburton, KBR's former parent company, engaged in books and records violations and internal controls violations related to the bribery.

KBR and Halliburton have agreed to pay $177 million in disgorgement to settle the SEC's charges. Kellogg Brown & Root LLC has agreed to pay a $402 million fine to settle parallel criminal charges brought today by the U.S. Department of Justice. The sanctions represent the largest combined settlement ever paid by U.S. companies since the FCPA's inception.

Kellogg Brown & Root LLC's predecessor entities (Kellogg, Brown & Root, Inc. and The M.W. Kellogg Company) were members of a four-company joint venture that won the construction contracts worth more than $6 billion. In September 1998, Halliburton acquired Dresser Industries, Inc., the parent company of The M.W. Kellogg Company.

The SEC alleges that beginning as early as 1994, members of the joint venture determined that it was necessary to pay bribes to officials within the Nigerian government in order to obtain the construction contracts. The former CEO of the predecessor entities, Albert "Jack" Stanley, and others involved in the joint venture met with high-ranking Nigerian government officials and their representatives on at least four occasions to arrange the bribe payments. To conceal the illicit payments, the joint venture entered into sham contracts with two agents, one based in the United Kingdom and one based in Japan, to funnel money to Nigerian officials.

The SEC's complaint alleges that the internal controls of Halliburton, the parent company of the KBR predecessor entities from 1998 to 2006, failed to detect or prevent the bribery, and that Halliburton records were falsified as a result of the bribery scheme. In September 2008, Stanley pleaded guilty to bribery and related charges and entered into a settlement with the SEC.

The SEC alleges that officials of the joint venture formed a "cultural committee" to decide how to carry out the bribery scheme. The committee decided to use the United Kingdom agent to make payments to high-ranking Nigerian officials and to use the Japanese agent to make payments to lower-ranking Nigerian officials. As the joint venture was paid for work on the construction project, the joint venture in turn made payments to the Japanese agent and to the Swiss and Monaco bank accounts of the United Kingdom agent. The total payments to the two agents exceeded $180 million. After receiving the money, the United Kingdom agent made substantial payments to accounts controlled by Nigerian government officials, and beginning in 2002 paid $5 million in cash to a Nigerian political party.

The SEC's complaint further alleges that, after the Dresser acquisition, Halliburton failed to devise and maintain adequate internal controls to govern the use of foreign sales agents and failed to maintain and enforce the internal controls it had. Halliburton's due diligence investigation of the United Kingdom agent failed to detect or prevent the bribery scheme. Halliburton conducted no due diligence on the Japanese agent. As a result of the scheme, numerous Halliburton records contained false information relating to the payments to the agents.

Without admitting or denying the SEC's allegations, KBR and Halliburton have consented to the entry of a court order that (i) permanently enjoins KBR from violating the anti-bribery and records falsification provisions in Sections 30A, 13(b)(5) and Rule 13b2-1 of the Securities Exchange Act of 1934, and from aiding and abetting violations of the record-keeping and internal control provisions in Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act; (ii) permanently enjoins Halliburton from violating the record-keeping and internal control provisions of the Exchange Act; (iii) orders the companies to disgorge $177 million in ill-gotten profits derived from the scheme; (iv) imposes an independent monitor for KBR for a period of three years to review its FCPA compliance program, and (v) imposes an independent consultant for Halliburton to review its policies and procedures as they relate to compliance with the FCPA. The proposed settlements are subject to the court's approval.

In the related criminal proceeding announced today, the U.S. Department of Justice filed a criminal action against Kellogg Brown & Root LLC, charging one count of conspiring to violate the FCPA and four counts of violating the anti-bribery provisions of the FCPA. Kellogg Brown & Root LLC has pled guilty to each of these counts. Under its plea agreement, Kellogg Brown & Root LLC is required to pay a criminal fine of $402 million and to retain a monitor to review and evaluate KBR's policies and procedures as they relate to compliance with the FCPA.

The Commission acknowledges the assistance of the U.S. Department of Justice, Fraud Section; the Federal Bureau of Investigation; and foreign authorities in Europe, Asia, Africa and the Americas. The Commission's investigation is continuing.

SEC Complaint

http://www.sec.gov/litigation/litreleases/2009/lr20897a.htm
