

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

STEPHEN S. STEPHENS, LYLE
LIONBARGER AND DEANNA J.
LIONBARGER as trustees for the LW &
Deanna J. Lionbarger Family Trust Dated
06/25/96,

Plaintiffs,

v.

HALLIBURTON COMPANY, D/B/A
HALLIBURTON ENERGY SERVICES;
RICHARD B. CHENEY;
DAVID J. LESAR;
RAY L. HUNT;
ROBERT L. CRANDALL;
CHARLES J. DIBONA;
LAWRENCE S. EAGLEBURGER;
WILLIAM R. HOWELL;
JAMES LANDIS MARTIN;
JAY A. PRECOURT;
CECIL J. SILAS;
DOUGLAS L. FOSHEE;
JERRY H. BLURTON;
CEDRIC BURGHER;
ROBERT CHARLES MUCHMORE, JR.;
ANDERSEN;
ANDERSEN WORLDWIDE;
ARTHUR ANDERSEN, LLP;
TERRENCE EDWARD HATCHETT;
and DOES 1-20, inclusive,

Defendants.

Civil Action No.

COMPLAINT;

DEMAND FOR JURY TRIAL

Plaintiffs, by the undersigned counsel, aver on personal knowledge as to themselves and their own acts, and on information and belief (based on the investigation of their counsel) as to

all other matters (as to which averments they believe that substantial evidentiary support will exist after a reasonable opportunity for further investigation and discovery) as follows:

NATURE OF THE ACTION

1. This action arises from a fraud perpetrated by directors, officers, and accountants of Halliburton Company, d/b/a Halliburton Energy Services (“Halliburton”) against shareholders of and potential investors in Halliburton securities and the integrity of the securities market.

JURISDICTION

2. Jurisdiction exists under 28 U.S.C. § 1332 because the parties are of diverse citizenship and the amount in controversy, including punitive and exemplary damages, exceeds \$75,000.00, exclusive of interest and costs. On information and belief, punitive and exemplary damages are highly likely to be awarded to each Plaintiff in amounts exceeding \$75,000.00 due to the egregiousness of the fraudulent acts, omissions, and scheme set forth in detail below.

VENUE

3. Venue is proper in this district under 28 U.S.C. § 1391(a)(2) because a substantial part of the events or omissions giving rise to the claims occurred here.

PLAINTIFFS

4. Plaintiff Stephen F. Stephens (“Stephens”) resides in and is a citizen of

and domiciled in the State of Indiana and at relevant times bought and/or sold Halliburton securities. Due to the egregiousness of the fraudulent acts, omissions, and schemes set forth below, Stephens seeks and expects to recover, in addition to compensatory damages, at least \$200,000.00 in punitive and exemplary damages from each defendant pursuant to Texas Civil Practice & Remedies Code § 41.008(b).

5. Plaintiffs Lyle W. Lionbarger and Deanna J. Lionbarger are husband and wife, residents and citizens of and domiciled in the State of New Mexico, and at relevant times bought and/or sold Halliburton securities as trustees of the LW and Deanna J. Lionbarger Family Trust Dated 6/25/96 (collectively, the “Lionbargers”). Due to the egregiousness of the fraudulent acts, omissions, and schemes set forth below, the Lionbargers seek and expect to recover, in addition to compensatory damages, at least \$200,000.00 in punitive and exemplary damages from each defendant pursuant to Texas Civil Practice & Remedies Code § 41.008(b).

THE CORPORATE DEFENDANT

6. On information and belief, Halliburton is a Delaware corporation with its principal place of business in Dallas, Texas, and does business as Halliburton Energy Services.

7. On information and belief, on all filings with the United States Securities and Exchange Commission (the “SEC”) Halliburton lists its business and mailing address as 3600 LINCOLN PLZ, 500 N AKARD ST, DALLAS TX 75201

8. On information and belief, a substantial part of the events and omissions set forth below occurred in, or originated from, Halliburton’s principal place of business in Dallas, Texas.

9. On information and belief, less than ten years before the filing of this action, on or about July 25, 1995, in *United States v. Halliburton Co.*, U.S.D.C. Criminal Case No. 95-CR-157-ALL (S.D. Texas), Halliburton pled guilty to illegally exporting goods to the terrorist nation of Libya in violation of 50 U.S.C. §§ 1702 and 1705, 31 C.F.R. §§ 550.202, 550.208, 550.409, and 18 U.S.C. § 2, was fined \$1.2 million on conviction, and is a convicted felon.

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DIRECTOR AND OFFICER DEFENDANTS

10. Defendant Richard B. Cheney (“Cheney”) is currently the Vice-President of the United States, domiciled in the State of Texas or Washington, D.C., a resident of Washington, D.C., and was the Chief Executive Officer of Halliburton from 1995 into 2000. Cheney is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

11. Defendant David J. Lesar (“Lesar”) is domiciled in the State of Texas and a resident of Plano, Texas. Lesar joined the Board of Directors of Halliburton in 2000 and is currently the Chairman of the Board, the President, and the Chief Executive Officer. He was formerly Executive Vice President and the Chief Financial Officer from 1995 until 1997 and became the President of Halliburton in 1997. Prior to joining Halliburton, Lesar had been a partner in Defendant Andersen, Defendant Andersen Worldwide, and/or Defendant Arthur Andersen, LLP. Lesar is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

12. Defendant Ray L. Hunt (“Hunt”) is domiciled in the State of Texas, a resident of Addison, Texas, joined the Board of Directors of Halliburton in 1998, and is and/or

was at relevant times the Chairman of the Compensation Committee and a member of the Audit and the Management Oversight Committees. Hunt is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

13. Defendant Robert L. Crandall (“Crandall”) is domiciled in the State of Texas, a resident of Houston, Texas, joined the Board of Directors of Halliburton in 1986, and is and/or was at relevant times the Chairman of the Nominating and Corporate Governance Committee and a member of the Audit, the Compensation, and the Management Oversight Committees. Crandall is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

14. Defendant Charles J. Dibona (“Dibona”) is domiciled in the State of Virginia, joined the Board of Directors of Halliburton in 1997, and is and/or was at relevant times a member of the Compensation and the Management Oversight Committees. Dibona is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

15. Defendant Lawrence S. Eagleburger (“Eagleburger”) is domiciled in Virginia, joined the Board of Directors of Halliburton in 1998, and is and/or was at relevant times a member of the Audit, the Compensation, the Management Oversight, and the Nominating and Corporate Governance Committees. Eagleburger is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

16. Defendant William R. Howell (“Howell”) is domiciled in the State of

Texas, a resident of Houston, Texas, joined the Board of Directors of Halliburton in 1991, and is and/or was at relevant times the Chairman of the Management Oversight Committee and a member of the Audit and the Compensation Committees. Howell is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

17. Defendant James Landis Martin (“Martin”) is domiciled in the State of Colorado, joined the Board of Directors of Halliburton in 1998, and is and/or was at relevant times a member of the Nominating and Corporate Governance and the Management Oversight Committees. Martin is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

18. Defendant Jay A. Precourt (“Precourt”) is domiciled in the State of Utah, joined the Board of Directors of Halliburton in 1998, and is and/or was at relevant times a member of the Compensation and the Management Oversight Committees. Precourt is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

19. Defendant Cecil J. Silas (“Silas”) is domiciled in the State of Oklahoma, joined the Board of Directors of Halliburton in 1993, and is and/or was at relevant times the Chairman of the Audit Committee and a member of the Compensation and the Management Oversight Committees. Silas is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

20. Defendant Douglas L. Foshee (“Foshee”) is domiciled in the State of Texas, a resident of Houston, Texas, and is and/or was at relevant times Executive Vice

President and the Chief Financial Officer of Halliburton. Foshee is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

21. Defendant Jerry H. Blurton (“Blurton”) is domiciled in the State of Texas, a resident of Houston, Texas, and is and/or was at relevant times Vice President and the Treasurer of Halliburton. Blurton is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

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22. Defendant Cedric Burgher (“Burgher”) is domiciled in the State of Texas, a resident of Houston, Texas, and is and/or was at relevant times Vice President of Investor Relations for Halliburton. Burgher is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

23. Defendant Robert Charles Muchmore, Jr. (“Muchmore”) is domiciled in the State of Texas, a resident of Plano, Texas, and is and/or was at relevant times a Vice President, the Principal Accounting Officer, and the Controller of Halliburton. Muchmore is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

24. On information and belief, Defendant Does 1 through 10 are past or present directors, officers, managing agents, and/or other employees or agents of Halliburton, whose identities are currently unknown, but who committed, aided, abetted, participated in,

and/or furthered the fraudulent acts, omissions, and scheme set forth below. On information and belief, none of these Doe Defendants is domiciled in the same state as any Plaintiff. Plaintiffs will seek leave of court to identify these Does by their proper names and capacities when that information is ascertained.

25. Defendants Cheney, Crandall, Dibona, Eagleburger, Howell, Hunt, Lesar, Martin, Precourt, Silas, Foshee, Blurton, Burgher, Muchmore, and Does 1 through 10 are collectively called the “Director and Officer Defendants.”

26. On information and belief, on dates currently unknown, the Director and Officer Defendants secretly entered into an agreement, combination, and conspiracy with each other and the defendants named below, to commit, aid, abet, participate in, and further the fraudulent acts, omissions, and scheme set forth below, all with intent to mislead Halliburton’s shareholders, potential investors, and the securities market as to Halliburton’s true financial condition and the value of Halliburton’s securities.

ACCOUNTANT DEFENDANTS

27. On information and belief, Defendant Andersen is either a partnership or other type of unincorporated association consisting of member firms within “the Andersen global client service network.” On information and belief, at all relevant times Andersen described and promoted itself as a single, integrated, full-service, professional business enterprise comprising “one firm” with “one voice” and a “shared heritage and common values and vision.” On information and belief, Anderson does business and is found in Dallas, Texas, and was at all relevant times one of the most sophisticated international accounting, auditing, and management consulting firms in the United States and the world, with expertise in all areas

of Halliburton's business. Before the recent bankruptcy of Enron, Andersen enjoyed an excellent reputation; Andersen's involvement with auditing, SEC filings, and securities offerings bestowed the imprimatur of legitimacy, confidence, and stability on its many clients, including Halliburton. Andersen is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below. Plaintiffs will seek leave of court to amend this pleading to name constituent members of Andersen after discovery into the exact nature of Andersen, members, alter ego issues, and sham transaction issues.

28. On information and belief, Defendant Andersen Worldwide is a corporation, a partnership, or another type of unincorporated association consisting of member firms within "the Andersen global client service network." On information and belief, at all relevant times Andersen Worldwide described and promoted itself as a single, integrated, full-service, professional business enterprise comprising "one firm" with "one voice" and a "shared heritage and common values and vision." On information and belief, Anderson Worldwide does business and is found in Dallas, Texas, and was at all relevant times one of the most sophisticated international accounting, auditing, and management consulting firms in the United States and the world, with expertise in all areas of Halliburton's business. Before the recent bankruptcy of Enron, Andersen Worldwide enjoyed an excellent reputation; Andersen Worldwide's involvement with auditing, SEC filings, and securities offerings bestowed the imprimatur of legitimacy, confidence, and stability on its clients, including Halliburton. Andersen Worldwide is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below. Plaintiffs will seek leave of court to amend this pleading to name constituent members of Andersen Worldwide after discovery into the exact nature of Andersen Worldwide, its members, alter ego issues, and sham transaction issues.

29. On information and belief, Defendant Arthur Anderson, LLP is a limited liability partnership, a member of “the Andersen global client service network,” does business and is found in Dallas, Texas, and was at all relevant times one of the most sophisticated international accounting, auditing, and management consulting firms in the United States and the world, with expertise in all areas of Halliburton’s business. On information and belief, at all relevant times Arthur Andersen, LLP described and promoted itself as a single, integrated, full-service, professional business enterprise comprising “one firm” with “one voice” and a “shared heritage and common values and vision.” Before the recent bankruptcy of Enron, Arthur Andersen, LLP enjoyed an excellent reputation; Arthur Andersen, LLP’s involvement with auditing, SEC filings, and securities offerings bestowed the imprimatur of legitimacy, confidence, and stability on its clients, including Halliburton. Arthur Andersen, LLP is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

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30. On information and belief, Andersen, Andersen Worldwide, and Arthur Andersen, LLP are alter egos of each other in that they now and at all relevant times (a) held themselves out to the public as a single, integrated, full-service, professional business enterprise comprising “one firm” with “one voice” and a “shared heritage and common values and vision”; (b) completely dominated and controlled each other’s assets, operations, policies, procedures, strategies, and tactics; (c) failed to observe corporate formalities; (d) and used and commingled the assets, facilities, employees, and business opportunities of each other, as if those assets, facilities, employees, and business opportunities were their own -- all to such an extent that any adherence to the fiction of the separate existence of any of these defendants distinct from the others would be inequitable, would permit egregious wrongdoers to abuse a corporate, limited liability partnership, and/or similar privilege of limited liability, if any, and would promote

injustice by allowing these defendants to evade liability or veil assets that should be attachable.

31. For convenience, in light of the foregoing relationships among them, Defendants Andersen, Andersen Worldwide, and Arthur Andersen, LLP are collectively called “AA” below.

32. On information and belief, on dates and/or during a period that is currently not precisely known but appears to have commenced in or about 1998, AA made strategic business decisions to transform itself from a traditional, independent, and objective accounting and auditing firm with acknowledged responsibilities to the public, into a very aggressive, pro-active, pro-client, advisory firm committed to promoting client success through value creation. On information and belief, the AA model of client success through value creation was restated at length by three AA partners, on behalf of AA, in Cracking the Value Code: How Successful Businesses Are Creating Wealth in the New Economy, and summarized as follows:

Value creation – that is, future value captured in the form of increased market capitalization – is how successful businesses are creating value in the New Economy....

In the pages that follow, you will find a new set of tools that we have developed to help you create value in the New Economy [i.e. increased market capitalization]. It is called Value Dynamics, and it is based, in part, on an intensive three-year, 10,000-company research project by professionals at Arthur Andersen.

33. On information and belief, on or about January 10, 2001, AA appointed Joseph F. Berardino to be its new chief executive officer. In a press release announcing Mr.

Barardino's new appointment, AA reiterated its collective "Cracking the Value Code" vision as follows:

Arthur Andersen's vision is to be the partner for success in the new economy. The firm helps clients find new ways to create, manage and measure value in the rapidly changing global economy. With world-class skills in assurance, tax, consulting and corporate finance, Arthur Andersen has more than 77,000 people in 84 countries who are united by a single worldwide operating structure that fosters inventiveness, knowledge sharing and a focus on client success.

34. On information and belief, AA's very aggressive, pro-active, pro-client business strategy and management-consulting philosophy of fostering "inventiveness" and promoting client success through value creation as measured by increased market capitalization, explained in Cracking the Value Code and reaffirmed in the foregoing press release, had already been adopted and implemented for numerous AA clients prior to the events set forth below.

35. On information and belief, the fraudulent acts, omissions, and scheme set forth below were substantially the result of AA's very aggressive, pro-active, pro-client business strategy and management-consulting philosophy of fostering "inventiveness" and promoting client success through value creation as measured by increased market capitalization. On information and belief, if AA had performed the more traditional roles of independent and objective accountant and auditor, then the fraudulent acts, omissions, and scheme below would not have occurred in the first place or would have been exposed and stopped much earlier.

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36. On information and belief, Defendant Terrence E. Hatchett ("Hatchett") is domiciled in Texas and a resident of Houston, Texas, and was at relevant times the lead AA auditor on the Halliburton account. On information and belief, Hatchett was a direct participant, aider and abetter, and/or co-conspirator in the fraudulent acts, omissions, and scheme set forth

below. Hatchett is sued herein under Texas state law as a direct participant, aider and abettor, and co-conspirator in the fraudulent acts, omissions, and scheme set forth below.

37. On information and belief, Defendant Does 11 through 20 are past or present partners, principals, officers, managing agents, and/or other employees or agents of AA, whose identities are currently unknown, but who committed, aided, abetted, participated in, and/or furthered the fraudulent acts, omissions, and scheme set forth below. On information and belief, none of these Doe Defendants is domiciled in the same state as any Plaintiff. Plaintiffs will seek leave of court to identify these Does by their true names and capacities when ascertained.

38. Defendants AA, Hatchett, and Does 11 through 20 are collectively called the “Accountant Defendants” below.

39. On information and belief, an extremely close relationship has existed for many years between AA and Halliburton at the business level, and/or between the partners or principals of AA and the key management personnel of Halliburton on a personal and social level. For example, on information and belief, at least one former audit partner or principal of AA has become a director and/or officer of Halliburton, and Lesar and Hatchett at all relevant times were close personal friends of Cheney and other Director and Officer Defendants.

40. On information and belief, AA was continuously engaged by Halliburton for many years, until April 2002, to provide “independent” accounting, auditing, and management consulting services, tax services, examination and review of SEC filings, audits, and reviews of financial statements included in Halliburton’s SEC filings, including audited and unaudited information, and annual reports.

41. On information and belief, AA's relationship with Halliburton went far beyond "independent" auditing services to include both internal and external auditing and accounting, management consulting, and extensive, active involvement in the materially incomplete, misleading, and fraudulent reporting and disclosure of Halliburton's financial condition and/or the fraudulent acts, omissions, and scheme set forth below.

42. On information and belief, as a result of the myriad of services rendered to Halliburton, AA had continual access to and knowledge of Halliburton's inside corporate, business, and financial information, including *inter alia* relevant facts about Halliburton's financial condition and/or the fraudulent acts, omissions, and scheme set forth below.

43. On information and belief, as a result of AA's expertise, extremely close working relationship with Halliburton, constant interaction with Halliburton, and detailed knowledge of and access to all relevant documents and information, at all relevant times AA knew full well that it was a direct participant, aider and abettor, and co-conspirator in a massive scheme to mislead and defraud Halliburton shareholders, potential investors, and the securities market as to *inter alia* Halliburton's true financial condition and the value of Halliburton's securities.

44. On information and belief, AA received millions of dollars in accounting, audit, management consulting, and advisory fees during the fraudulent activities set forth below.

45. On information and belief, on dates that are currently unknown but appears to have commenced no later than 1998, the Accountant Defendants secretly entered into an agreement, combination, and conspiracy with each other and the Director and Officer

Defendants to commit, aid, abet, participate in, and further the fraudulent acts, omissions, and scheme set forth below, all with the intent to keep Halliburton as a client and continue reaping multi-million dollar fees.

COMMON ALLEGATIONS

46. At all relevant times Halliburton has provided products, maintenance, engineering, and construction services to energy, industrial, and governmental customers through two groups: (a) the Energy Services Group provides services and products for the exploration, development, and production of oil and gas, and “integrated solutions” to energy companies, ranging from the initial evaluation of producing formations to drilling, production, and well maintenance; and (b) the Engineering and Construction Group provides diverse engineering and construction services to energy, industrial, and governmental customers in more than 100 countries worldwide. For these activities, Halliburton routinely enters into long-term construction and other contracts.

47. Until late 1990's, Halliburton normally entered into contracts on a cost-plus basis, which provided for payment of all costs actually incurred, whatever they were, plus a small profit margin over costs. Starting in the late 1990's, Defendants started receiving more fixed-price contracts, which do not guarantee any profit margin to Halliburton in the event of cost overruns and/or change orders. Such fixed-price contracts require Halliburton to negotiate and/or to sue for payment of cost overruns and change orders. The resulting disputes may take months or years to resolve and their outcome cannot be foreseen with any degree of reliability. Nonetheless, Defendants, in agreement, concert, and conspiracy with each other, improperly decided to start recognizing at least part of the speculative revenue from disputed claims even while the disputes were still unresolved and uncertain (the “Change in Accounting Principle”).

48. On information and belief, the Change in Accounting Principle was adopted and implemented, with the knowledge and consent of all Director and Officer Defendants and all Accountant Defendants, pursuant to AA's very aggressive, pro-active, pro-client strategy and management-consulting philosophy of fostering "inventiveness" and promoting Halliburton's success through value creation as measured by increased market capitalization. On information and belief, Cheney was a strong proponent of and participant in AA's foregoing strategy and philosophy within Halliburton. On information and belief, Cheney used his official position and influence to persuade the other Director and Officer Defendants to consider, adopt, and implement AA's foregoing strategy and philosophy as well as to hire Lesar away from AA in or about 1995. On Information and belief, Cheney even participated in an AA promotional video for AA, stating that "I get good advice, if you will, from their people based upon how we're doing business and how we're operating over and above just the normal by-the-books auditing arrangements."

49. On information and belief, beginning in or about the fourth quarter of 1998 and without making disclosure to its shareholders or investors, Halliburton, the Director and Officer Defendants, and the Accountant Defendants changed, caused a change in, and/or went along with the Change in Accounting Principle so as to report at least \$89 million of revenues to cover disputed, unresolved cost overruns on long-term construction projects, on the undisclosed and speculative assumption that its customers would pay the disputed amounts. At the time of this undisclosed Change in Accounting Principle, Halliburton was having a very difficult year with lower oil prices adversely affecting its business and was facing a net loss for the year, compared to substantial net income in the prior year. In addition, in the third quarter of 1998, before the Change in Accounting Principle was implemented, Halliburton acquired Dresser Industries, Inc. ("Dresser"), which had been besieged by hundreds of thousands of asbestos-

related lawsuits, all of which further threatened the financial performance of Halliburton in 1998 and later years.

50. On information and belief, by virtue of the Change in Accounting Principle, Halliburton reported unbilled receivables of \$98 million for the year ended December 31, 1999, unbilled receivables of \$113 million for the year ended December 31, 2000, and unbilled receivables of \$234 million for the year ended December 31, 2001, based on unapproved and disputed cost overruns, change orders, and unresolved claims, without disclosing the Change in Accounting Principle to book speculative revenue on unresolved claims and change orders not approved by its customers. The undisclosed Change in Accounting Principle and the revenue recognition arising therefrom violated Generally Accepted Accounting Principles (“GAAP”) because such revenues were not probable and could not be reliably estimated.

51. Statement of Position 81-1 is part of GAAP, governs accounting for long-term construction-type contracts, and provides in relevant part that:

Claims are amounts in excess of the agreed contract price (or amounts not included in the original contract price) that a contractor seeks to collect from customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Recognition of amounts of additional contract revenue relating to claims is appropriate only if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated.

52. On information and belief, the Change in Accounting Principle violated this provision of GAAP and constituted a material departure from both Halliburton’s long-standing accounting policies and the general industry-wide practice, which is not to record

revenue on cost overruns, change orders, or related unresolved claims absent customer approval.

53. On information and belief, the net effect of the Change in Accounting Principle was to materially inflate Halliburton's revenues and earnings from 1998 onward. For example, in the fourth quarter of 1998, the Company reported \$175 million of pre-tax operating profits, more than half of which (\$89 million) resulted from the undisclosed Change in Accounting Principle in violation of GAAP. On information and belief, under Halliburton's previous, long-standing accounting practices, cost overruns would not be covered by the recognition of revenue, but would be recognized as losses, and revenue would not be recognized until Halliburton's clients agreed to pay additional sums to cover Halliburton's disputed claims or change orders.

54. The Change in Accounting Principle and its non-disclosure also violated GAAP principles in Accounting Principles Board Opinion ("APB") No. 20, which provides that an accounting principle should not be changed unless it can be justified that the change results in an accounting treatment that is preferable:

The Board concludes that in the preparation of financial statements there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data.

The presumption that an entity should not change an accounting principle may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle on the basis that it is preferable.

55. APB No. 20 further states that the nature and justification for a change in accounting principle should be disclosed in financial statements when the change is made:

The nature and justification for a change in accounting principle and its effect on income should be disclosed in the financial statements of the period in which the change is made. The justification for the change should explain clearly why the newly adopted accounting principle is preferable.

56. APB No. 20 requires a company making a change in accounting principle to disclose specifically “the effect of adopting the new accounting principle on income.”

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57. APB No. 20 defines a change in accounting principle to include a change from one generally accepted accounting principle to another, as well as a change in the method of applying a particular accounting principle:

A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term “accounting principle” includes not only accounting principles and practices but also the methods of applying them.

...

Changes in accounting principle are numerous and varied. They include . . . a change in the method of accounting for long-term construction-type contracts

58. Halliburton’s change in accounting principle was not disclosed or justified in its financial statements, and the effect of the change on net income was not specifically disclosed as required by GAAP. Halliburton made no disclosure of the change in its 1998 Form 10-K. Subsequently, in its 1999, 2000, and 2001 Forms 10-K, Halliburton stated only that, “Claims and change orders which are in the process of being negotiated with customers for extra work or changes in the scope of the work are included in revenue when collection is deemed probable.” This statement violated GAAP because it did not reveal that the Change in

Accounting Principle had occurred, nor did Halliburton try to justify the change, explain why it was preferable, or to disclose its effect on net income. Hence, Halliburton's reported financial results and financial statements for 1998, 1999, 2000, and 2001 were materially false and misleading when made.

59. A change in an accounting principle is of such material significance to an informed investment decision that the SEC requires that a company making such a change file a letter from its independent accountants supporting the preferability of the accounting principle change in the first Form 10-Q to be filed by the company after the change. SEC Regulation S-X, Rule 10-01(b)(6). On information and belief, the Accountant Defendants did not provide, and Halliburton did not file, any such letter.

60. On information and belief, Defendants, in agreement, concert, and conspiracy with each other, directly or indirectly initiated, directed, participated in, aided and abetted, furthered, otherwise caused, and/or concealed the Change in Accounting Principle, the resulting financial fraud from 1998 into 2002, or related events, for the purpose of preserving their directorships and/or other positions with Halliburton, keeping their contracts with Halliburton, their income, compensation, and fringe benefits, supporting the value of their Halliburton securities, and/or concealing their participation in and liability for fraudulent reporting and activities.

61. The Accountant Defendants audited Halliburton's financial statements for the fiscal year ended December 31, 1998 (the "1998 Financials"), and issued an unqualified audit report dated January 25, 1999, attesting to the accuracy and reliability of the financial statements in conformity with GAAP (the "1/25/99 Audit Report").

62. Halliburton's Form 10-K (Annual Report) for the fiscal year ended

December 31, 1998, was filed with the SEC on March 23, 1999 (the “1998 10-K”). The 1998 10-K is a public record and included the 1998 Financials and the 1/25/99 Audit Report. The 1998 10-K was signed by Cheney, Hunt, Crandall, Dibona, Eagleburger, Howell, Martin, Precourt, Silas, and Muchmore.

63. On information and belief, the 1998 Financials, the 1/25/99 Audit Report, and the 1998 10-K were all provided not only to the SEC, but also, with the knowledge, approval, and consent of all defendants, to Halliburton shareholders, potential investors, securities analysts, the news media, and others who affect the securities market.

64. On information and belief, the Director and Officer Defendants and Accountant Defendants collaborated and worked together closely in preparing, finalizing, and filing the 1998 Financials, 1/25/99 Audit Report, and 1998 10-K, and knew the contents of those documents.

65. The 1998 Financials, 1/25/99 Audit Report, and 1998 10-K were materially false and misleading when made for the reasons set forth above. In violation of GAAP, Halliburton recognized at least \$89 million of revenues in 1998 which was not probable and could not be reliably estimated. In further violation of GAAP, Halliburton’s 1998 financial statements did not reveal the Change in Accounting Principle, nor did Halliburton attempt to justify the basis for such a change or why it was preferable or disclose the effect of the change on net income.

66. On information and belief, the Director and Officer Defendants and Accountant Defendants knew at all relevant times, or recklessly failed to learn, that the 1998 Financials, 1/25/99 Audit Report, and 1998 10-K were not in conformity with GAAP and/or were materially false and misleading for the reasons set forth above.

67. On information and belief, despite knowledge or reckless failure to learn that the 1998 Financials, 1/25/99 Audit Report, and 1998 10-K were not in conformity with GAAP and/or were materially false and misleading, the Director and Officer Defendants and Accountant Defendants intentionally, wilfully, or recklessly continued to work for Halliburton and allow their good names, services, and work product to be used in furtherance of fraud, without resigning, blowing the whistle, or raising a red flag.

68. On July 22, 1999, Halliburton issued a press release announcing financial results for its second quarter ended June 30, 1999, stating total revenues were \$3.7 billion for the quarter and net income was \$83 million, or \$0.19 per diluted share (“7/22/99 Press Release”).

69. On August 13, 1999, Halliburton filed its Form 10-Q with the SEC for its second quarter ended June 30, 1999, confirming previously announced financial results (the “8/13/99 10-Q”). The 8/13/99 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton’s finances fairly, stating the following in note 1 to the quarterly financial statement, under the title of “Management Representations”:

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with our 1998 Annual Report on Form 10-K.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of June 30, 1999, and the results of our operations for the three and six months ended June 30, 1999, and our cash flows for the six months then ended.

70. On October 21, 1999, Halliburton issued a press release announcing financial results for its third quarter ended September 30, 1999, reporting net income of \$58 million for the quarter (\$0.13 per share diluted), compared to a loss of \$527 million (\$1.20 per share diluted) in the 1998 third quarter (the “10/21/99 Press Release”).

71. On November 15, 1999, Halliburton filed its Form 10-Q with the SEC for its third quarter ended September 30, 1999, confirming the previously announced financial results (the “11/15/99 10-Q”). The 11/15/99 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton’s finances fairly, stating the following in note 1 to the quarterly financial statement, under the title of “Management Representations”:

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with our 1998 Annual Report on Form 10-K.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of September 30, 1999, and the results of our operations for the three and nine months ended September 30, 1999, and our cash flows for the nine months then ended.

72. On January 27, 2000, Halliburton issued a press release announcing financial results for its fourth quarter and year ended December 31, 1999, reporting adjusted net income of \$76 million (\$0.17 per diluted share), compared to net income of \$66 million (\$0.15 per diluted share) in the year ago quarter (the “1/27/2000 Press Release”).

73. The Accountant Defendants audited Halliburton's financial statements for the fiscal year ended December 31, 1999 (the "1999 Financials"), and issued an unqualified audit report dated January 27 and February 19, 2000, attesting to the accuracy and reliability of the financial statements in conformity with GAAP (the "1/27/2000 Audit Report").

74. Halliburton's Form 10-K (Annual Report) for the fiscal year ended December 31, 1999, was filed with the SEC on March 14, 2000 (the "1999 10-K"). The 1999 10-K is a public record and included the 1999 Financials and the 1/27/2000 Audit Report. The 1999 10-K was signed by Cheney, Hunt, Crandall, Dibona, Eagleburger, Howell, Martin, Precourt, Silas, and Muchmore.

75. The 1999 10-K represented that Halliburton had employed accounting principles in accordance with GAAP and had prepared its financial statements in accordance with GAAP. The "Revenue and Income Recognition" section of the 1999 10-K stated as follows:

Revenues and income recognition. We recognize revenues as services are rendered or products are shipped. The distinction between services and product sales is based upon the overall activity of the particular business operation. Revenues from engineering and construction contracts are reported on the percentage of completion method of accounting using measurements of progress towards completion appropriate for the work performed. All known or anticipated losses on contracts are provided for currently. Claims and change orders which are in the process of being negotiated with customers, for extra work or changes in the scope of the work are included in revenue when collection is deemed probable.

76. The "Receivables" section of the 1999 10-K stated that claims and change orders included in unbilled receivables amounted to \$89 million at December 31, 1998, and \$98 million at December 31, 1999, and were generally expected to be collected in the following

year.

77. The foregoing 7/22/99 Press Release, 8/13/99 10-Q, 10/21/99 Press Release, 11/15/99 10-Q, 1/27/2000 Press Release, 1999 Financials, 1/27/2000 Audit Report, and the 1999 10-K were materially false and misleading when made for the reasons set forth above. In violation of GAAP, Halliburton recognized as much as \$98 million of revenue in 1999 which was not probable and could not be reliably estimated. In further violation of GAAP, the 1999 Financials did not reveal that Change in Accounting Principle, nor did Halliburton attempt to justify the change or why it was preferable or disclose the effect of the change on net income. The Change in Accounting Principle resulted in a material effect of \$98 million for 1999.

78. On information and belief, the 7/22/99 Press Release, 8/13/99 10-Q, 10/21/99 Press Release, 11/15/99 10-Q, 1/27/2000 Press Release, 1999 Financials, 1/27/2000 Audit Report, and the 1999 10-K were all provided not only to the SEC, but also, with the knowledge, approval, and consent of all defendants, to Halliburton shareholders, potential investors, securities analysts, the news media, and others who affect the securities market.

79. On information and belief, the Director and Officer Defendants and Accountant Defendants collaborated and worked together closely in preparing, finalizing, and filing the 7/22/99 Press Release, 8/13/99 10-Q, 10/21/99 Press Release, 11/15/99 10-Q, 1/27/2000 Press Release, 1999 Financials, 1/27/2000 Audit Report, and 1999 10-K, and knew their contents.

80. On information and belief, the Director and Officer Defendants and Accountant Defendants knew at all relevant times, or recklessly failed to learn, that the 7/22/99 Press Release, 8/13/99 10-Q, 10/21/99 Press Release, 11/15/99 10-Q, 1/27/2000 Press Release, 1999 Financials, 1/27/2000 Audit Report, and the 1999 10-K were not in conformity

with GAAP and/or were materially false and misleading for the reasons set forth above.

81. On information and belief, despite knowledge or reckless failure to learn that the 7/22/99 Press Release, 8/13/99 10-Q, 10/21/99 Press Release, 11/15/99 10-Q, 1/27/2000 Press Release, 1999 Financials, 1/27/2000 Audit Report, and the 1999 10-K were not in conformity with GAAP and/or were materially false and misleading, the Director and Officer Defendants and Accountant Defendants intentionally, wilfully, or recklessly continued to work for Halliburton and allow their good names, services, and work product to be used in furtherance of fraud, without resigning, blowing the whistle, or raising a red flag.

82. On July 26, 2000, Halliburton issued a press release announcing financial results for its second quarter of 2000 ended June 30, 2000, reporting second quarter net income of \$75 million (\$0.17 per share diluted), compared to \$83 million (\$0.19 per share diluted) in the second quarter of 1999 (the “7/26/2000 Press Release”).

83. On August 10, 2000, Halliburton filed its Form 10-Q with the SEC for the second quarter of 2000 ended June 30, 2000, confirming the previously announced financial results (the “8/10/2000 10-Q”). The 8/10/2000 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton’s finances fairly, stating the following in note 1 to the quarterly financial statement, under the title of “Management Representations”:

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The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles

for complete financial statements and should be read in conjunction with our 1999 Annual Report on Form 10-K. Prior year amounts have been reclassified to conform to the current year presentation.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of June 30, 2000, and the results of our operations for the three and six months ended June 30, 2000, and our cash flows for the six months then ended.

84. On October 24, 2000, Halliburton issued a press release announcing financial results for its third quarter of 2000 ended September 30, 2000, reporting net income was \$157 million (\$0.35 per share diluted), representing a 109 % increase over the prior quarter and, a 171 % increase compared to the third quarter of 1999 (the "10/24/2000 Press Release").

85. On November 9, 2000, the Company filed a Form 10-Q with the SEC for its third quarter of 2000 ended September 30, 2000, confirming previously announced financial results (the "11/9/2000 10-Q"). The 11/9/2000 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton's finances fairly, stating the following in note 1 to the quarterly financial statement, under the title of "Management Representations":

The accompanying unaudited condensed financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with our 1999 Annual Report on Form 10-K. Prior year amounts have been reclassified to conform to the current year presentation.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of September 30, 2000, and the results of our operations for the three and nine months ended September 30, 2000, and our cash flows for the nine months then ended.

86. On January 30, 2001, Halliburton issued a press release announcing its financial results for the fourth quarter and year ended December 31, 2000, reporting net income was \$123 million (\$0.28 per diluted share) (the "1/30/2001 Press Release").

87. The Accountant Defendants audited Halliburton's financial statements for the fiscal year ended December 31, 2000 (the "2000 Financials"), and issued an unqualified audit report dated January 30 and March 23, 2001, attesting to the accuracy and reliability of the financial statements in conformity with GAAP (the "1/30/2001 Audit Report").

88. Halliburton's Form 10-K (Annual Report) for the fiscal year ended December 31, 2000, was filed with the SEC on March 27, 2001 (the "2000 10-K"). The 2000 10-K is a public record and included the 2000 Financials and the 1/30/2001 Audit Report. The 2000 10-K was signed by Lesar, Hunt, Crandall, Dibona, Eagleburger, Howell, Martin, Precourt, Silas, and Muchmore. Cheney was not a signatory because by the time the 2000 10-K was filed with the SEC he had resigned to become the Vice President of the United States.

89. The 2000 10-K represented that Halliburton employed accounting principles in accordance with GAAP and had prepared its financial statements in accordance with GAAP. The 2000 10-K described Halliburton's revenue recognition policy in the same format as the 1999 10-K, stating as follows:

Revenues and income recognition. We recognize revenues as services are rendered or products are shipped. The distinction between services and product sales is based upon the overall activity of the particular business operation. Revenues from engineering and construction contracts are reported on the percentage of completion method of accounting using measurements of progress towards completion appropriate for the work performed. All known or anticipated losses on contracts are provided for currently. Claims and change orders which are in the process of being negotiated with customers, for extra work or changes in the scope of the work are included in revenue when collection is deemed probable.

90. The "Receivables" section of the 2000 10-K stated that claims and change orders included in unbilled receivables were \$98 million at December 31, 1999, and \$113 million

at December 31, 2002, and were generally expected to be collected in the following year.

91. The 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, and the 2000 10-K were materially false and misleading when made for the reasons set forth above. In violation of GAAP, Halliburton recognized \$113 million of revenues in 2000 which was not probable and could not be reliably estimated. In further violation of GAAP, the 2000 Financials did not reveal the Change in Accounting Principle, nor did Halliburton attempt to justify the change or why it was preferable or disclose the effect of the change on net income. The Change in Accounting Principle resulted in a material effect of \$113 million for 2000.

92. On information and belief, the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, and the 2000 10-K were all provided not only to the SEC, but also, with the knowledge, approval, and consent of all defendants, to Halliburton shareholders, potential investors, securities analysts, the news media, and others who affect the securities market.

93. On information and belief, the Director and Officer Defendants and Accountant Defendants collaborated and worked together closely in preparing, finalizing, and filing the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, and the 2000 10-K, and knew the content of those documents.

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94. On information and belief, the Director and Officer Defendants and Accountant Defendants knew at all relevant times, or recklessly failed to learn, that the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, and the 2000 10-K were not in conformity with GAAP and/or were materially false and misleading for the reasons set forth above.

95. On information and belief, despite knowledge or reckless failure to learn that the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, and the 2000 10-K were not in conformity with GAAP and/or were materially false and misleading, the Director and Officer Defendants and Accountant Defendants intentionally, wilfully, or recklessly continued to work for Halliburton and allow their good names, services, and work product to be used in furtherance of fraud, without resigning, blowing the whistle, or raising a red flag.

96. On April 26, 2001, Halliburton issued a press release to announce that its “2001 first quarter net income was \$109 million (\$0.25 per diluted share). Net income from continuing operations was \$86 million, an increase of 219 percent over the prior year quarter. Revenues from continuing operations were \$3.1 billion in the 2001 first quarter, an increase of 10 percent compared to the year ago quarter. Operating income of \$198 million for the quarter represents an increase of 144 percent compared to the 2000 first quarter operating income of \$81 million.” (the “4/26/2001 Press Release”).

97. On May 11, 2001, Halliburton filed its Form 10-Q with the SEC for its first quarter of 2001 ended March 31, 2001, confirming the previously announced financial results (the “5/11/2001 10-Q”). The 5/11/2001 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton’s finances fairly, stating the following in note 1 to the quarterly financial statement, under the title of “Management Representations”:

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with our 2000 Annual Report on Form 10-K. Prior year amounts have been reclassified to conform to the current year presentation.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of March 31, 2001, and the results of our operations for the three months ended March 31, 2001, and our cash flows for the three months then ended.

98. On July 25, 2001, Halliburton issued a press release headlined “Halliburton Second Quarter [2001] Revenues and Earnings Continue to Soar,” reporting that “2001 second quarter net income was \$382 million (\$0.89 per diluted share). Net income from continuing operations was \$143 million (\$0.33 per diluted share), an increase of 175 percent compared to the prior year quarter” (the “7/25/2001 Press Release”).

99. On August 9, 2001, Halliburton filed its Form 10-Q with the SEC for the second quarter of 2001 ended June 30, 2001, confirming the previously announced financial results (the “8/9/2001 10-Q”). The 8/9/2001 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton’s finances fairly, stating the following in note 1 to the

quarterly financial statement, under the title of “Management Representations”:

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with our 2000 Annual Report on Form 10-K. Prior year amounts have been reclassified to conform with the current presentation.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of June 30, 2001, and the results of our operations for the three and six months ended June 30, 2001, and our cash flows for the six months then ended.

100. On October 23, 2001, Halliburton issued a press release headlined “Halliburton reports Record Profits,” announcing financial results for the third quarter of 2001 ended September 30, 2001 (the “10/23/2001 Press Release”). According to the 10/23/2001 Press Release, the third quarter 2001 net income from continuing operations was \$181 million (\$0.42 per diluted share), which was a 39% increase over the prior year quarter.

101. On November 8, 2001, the Company filed a Form 10-Q with the SEC for the third quarter of 2001 ended September 30, 2001, confirming the previously announced financial results (the “11/8/2001 10-Q”). The 11/8/2001 10-Q represented that the financial statements therein were prepared consistently with GAAP requirements for interim financial reports and that the filing presented Halliburton’s finances fairly, stating the following in note 1 to the quarterly financial statement, under the title of “Management Representations”:

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in

conjunction with our 2000 Annual Report on Form 10-K. Prior year amounts have been reclassified to conform to the current year presentation.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of September 30, 2001, and the results of our operations for the three and nine months ended September 30, 2001, and our cash flows for the nine months then ended.

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102. On or about November 15, 2002, Stephens purchased 500 shares of Halliburton common stock at a price of \$21.11 per share, for a total cost, with commissions, of \$10,685.00. On information and belief, unbeknownst to Stephens, the purchase price was grossly inflated because of the Defendants' misrepresentations and concealment of material information.

103. On January 23, 2002, Halliburton issued a press release headlined "Halliburton Fourth Quarter [2002] 33 Cents EPS Caps Outstanding Year," reporting "2001 fourth quarter net income from continuing operations of \$141 million (\$0.33 per diluted share) and \$551 million (\$1.28 per diluted share) for the full year" (the "1/23/2002 Press Release").

104. The Accountant Defendants audited Halliburton's financial statements for the fiscal year ended December 31, 2001 (the "2001 Financials"), and issued an unqualified audit report dated January 23 and February 21, 2002, attesting to the accuracy and reliability of the 2001 Financials in conformity with GAAP ("1/23/2002 Audit Report"). Furthermore, in the 1/23/2002 Audit Report, the Accountant Defendants affirmed the accuracy and reliability of Halliburton's financial statements for the prior three years in conformity with GAAP:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

105. On or about January 24, 2002, the Lionbargers purchased 100 shares of Halliburton common stock at a price of \$12.22 per share, for a total cost of \$1,222.00. On information and belief, unbeknownst to the Lionbargers, the purchase price was grossly inflated because of the Defendants' misrepresentations and concealment of material information.

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106. Halliburton's Form 10-K (Annual Report) for the fiscal year ended December 31, 2001, was filed with the SEC on March 12, 2002 (the "2001 10-K"). The 2001 10-K is a public record and included the 2001 Financials and the 1/23/2002 Audit Report. The 2000 10-K was signed by Lesar, Hunt, Crandall, Dibona, Eagleburger, Howell, Martin, Precourt, Silas, Foshee, and Muchmore.

107. The 2001 10-K represented that Halliburton employed accounting principles in accordance with GAAP and had prepared its financial statements in accordance with GAAP. Halliburton's revenue recognition policy was set forth as follows:

Revenues and income recognition. We recognize revenues as services are rendered or products are shipped. The distinction between services and product sales is based on the overall activity of the particular business operation. Revenues from engineering and construction contracts are reported on the percentage of completion method of accounting using measurements of progress towards completion appropriate for the work performed. Progress is generally based upon physical progress, man-hours or costs incurred based upon the appropriate method for the type of job. All known or anticipated losses on contracts are provided for currently. Claims and change orders which are in the process of being negotiated with customers, for extra work or changes in the scope of work are, included in revenue when collection is deemed probable.

108. The "Receivables" section of the 2001 Form 10-K stated that claims and change orders included in unbilled receivables were \$234 million at December 31, 2001, and

\$113 million at December 31, 2000.

109. The 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K were materially false and misleading when made for the reasons set forth above. In violation of GAAP, Halliburton recognized \$234 million of revenues in 2001 which was not probable and could not be reliably estimated. In further violation of GAAP, the 2001 Financials did not reveal the Change in Accounting Principle, nor did Halliburton attempt to justify the change or why it was preferable or disclose the effect of the change on net income. The Change in Accounting Principle resulted in a material effect of \$234 million for 2001.

110. On information and belief, the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K were all provided not only to the SEC, but also, with the knowledge, approval, and consent of all defendants, to Halliburton shareholders, potential investors, securities analysts, the news media, and others who affect the securities market.

111. On information and belief, the Director and Officer Defendants and Accountant Defendants collaborated and worked together closely in preparing, finalizing, and filing the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K, and knew the contents of those documents.

112. On information and belief, the Director and Officer Defendants and Accountant Defendants knew at all relevant times, or recklessly failed to learn, that the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K were not in conformity with GAAP and/or were materially false and misleading for the reasons set forth above.

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113. On information and belief, despite knowledge or reckless failure to learn that the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K were not in conformity with GAAP and/or were materially false and misleading, the Director and Officer Defendants and Accountant Defendants intentionally, wilfully, or recklessly continued to work for Halliburton and allow their good names, services, and work product to be used in furtherance of fraud, without resigning, blowing the whistle, or raising a red flag.

114. On information and belief, Halliburton fired the Accountant Defendants in or about April 17, 2002, after they had completed their services in furtherance of the fraud, and had become an embarrassment because of their involvement in widely publicized financial frauds and bankruptcies, including *inter alia* those of Enron Corp. and Global Crossing Ltd.

115. On information and belief, no one other than Defendants had any reason to suspect financial fraud at Halliburton before May 22, 2002, when The New York Times published an article on the Change in Accounting Principle in 1998. According to this article, Halliburton was incurring large losses on certain long-term construction contracts and was under

intense pressure at the time to boost revenues as its stock price fell because of an oil-industry recession. The New York Times article cited interviews with former executives of Dresser, acquired by Halliburton in the third quarter of 1998, who stated that the Change in Accounting Principle was made with the specific intent of masking Halliburton's worsening financial results:

Two former executives of Dresser Industries, which merged with Halliburton in 1998, said that they concluded after the merger that Halliburton had instituted aggressive accounting practices to obscure its losses.

Much of Halliburton's business comes from big construction projects, like natural gas processing plants, which sometimes ran over budget. With the policy change, Halliburton began to book revenue on the assumption that its customers would pay at least part of the cost overruns, although they remained in dispute. Before 1998, the company had been more conservative, reporting revenue from overruns only after settling with its customers.

...

Though resolving such disputes can take months or years, the company decided it was reasonable to recognize at least part of the revenue from the claims even while they remained in dispute, [Halliburton CFO] Foshee said.

...

That explanation was disputed by the former Dresser executives who joined Halliburton after the merger. They said . . . that the company made the accounting change to obscure large losses on several important construction contracts.

116. The New York Times reported that the Change in Accounting Principle was specifically approved by Lesar, a former partner of AA, as President of Halliburton. The New York Times reported that the Change in Accounting Principle "came at an important moment for Halliburton" which was "eager to win back investors' confidence after its takeover of Dresser":

Exactly how much of that revenue turned into profits for the company is not stated in Halliburton's financial reports. But the impact would have

been significant had the company taken the alternative route of writing the cost overruns as losses, wiping out more than half of its \$175 million in pretax operating profits for the fourth quarter [of 1998], when the accounting change took effect.

117. On May 28, 2002, after the close of trading, Halliburton issued a press release to announce that the SEC had begun “a preliminary investigation of the Company’s accounting treatment of cost overruns on construction jobs,” and that Halliburton expected to receive a formal request for documents or a subpoena in the next few days. Halliburton’s press release stated, however, that it believed that it had accounted for construction claims and change orders in conformity with GAAP. In response to Halliburton’s announcement, the price of Halliburton common stock decreased by 3.3% on May 29, 2002, on extraordinarily high trading volume.

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FIRST CLAIM FOR RELIEF

**(Fraud in Stock Transactions and Civil Conspiracy,
pursuant to Texas Business & Commerce Code Section 27.01,
against All Defendants)**

118. Plaintiffs hereby fully incorporate by reference all allegations set forth in preceding Paragraphs 1 through 117 as if fully set forth at this point.

119. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, made material misrepresentations to Plaintiffs relating to Halliburton’s financial condition and the value of Halliburton’s securities, in and in connection with *inter alia* the following communications and SEC filings: the 1998 Financials, the 1/25/99 Audit Report, the 1998 10-K, the 7/22/99 Press Release, the 8/13/99 10-

Q, the 10/21/99 Press Release, the 11/15/99 10-Q, the 1/27/2000 Press Release, the 1999 Financials, the 1/27/2000 Audit Report, the 1999 10-K, the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, the 2000 10-K, the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and 2001 10-K.

120. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, concealed material information relating to Halliburton's financial condition and the value of Halliburton's securities – e.g., the material understatement of liabilities, and the material overstatement of income or assets – in and in connection with *inter alia* the following communications and SEC filings: the 1998 Financials, the 1/25/99 Audit Report, the 1998 10-K, the 7/22/99 Press Release, the 8/13/99 10-Q, the 10/21/99 Press Release, the 11/15/99 10-Q, the 1/27/2000 Press Release, the 1999 Financials, the 1/27/2000 Audit Report, the 1999 10-K, the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, the 2000 10-K, the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K. As a result of the foregoing concealment of material information, the affirmative representations that were made relating to Halliburton's financial condition and the value of Halliburton's securities were at all relevant times materially incomplete, misleading, and fraudulent misrepresentations.

121. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, made *inter alia* the foregoing misrepresentations intentionally, wilfully, maliciously, with knowledge of, or with recklessness as to the materially incomplete, misleading, and fraudulent nature of the misrepresentations.

122. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, as set forth fully above, intended and/or had reason to expect that their foregoing misrepresentations would be relied upon by Plaintiffs, would influence and manipulate the market for Halliburton securities, and would artificially inflate the price paid and received in all purchases and sales thereof, from a date currently unknown but no later than 1998, for as long as possible into 2002.

123. On information and belief, the foregoing misrepresentations of Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, as set forth fully above, did in fact induce reliance on the misrepresentations, manipulate and influence the market for Halliburton securities, and artificially inflate the market price paid and received in all purchases and sales thereof, from a date currently unknown but no later than 1998, until May 22, 2002.

124. Plaintiffs reasonably and justifiably relied on the foregoing misrepresentations, on the integrity of the securities market, and/or on the absence of a fraud on the securities market in purchasing and selling securities, as set forth more fully above.

125. As a direct and proximate result of the Defendants' fraud and conspiracy in

the foregoing stock transactions, as set forth fully above, Plaintiffs have suffered injury and damages in that they were fraudulently induced to purchase securities at artificially inflated prices and lost some or all of the actual or projected amount and value of their investments, in amounts according to proof at trial.

126. The securities fraud perpetrated by the Defendants, jointly and severally, was aggravated by the kind of fraud for which Texas law allows the imposition of punitive and exemplary damages, in that the defendants (in concert and conspiracy with each other) made material representations that were false, knowing that they were false or with reckless disregard as to their truth and as positive assertions, with the intent that Plaintiffs rely on the representations. In fact, Plaintiffs relied on the representations and suffered injury and damages as a result of this reliance. Hence, Plaintiffs seek punitive and exemplary damages in the maximum amount authorized by Texas law.

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SECOND CLAIM FOR RELIEF

(Common Law Fraud and Civil Conspiracy, against All Defendants)

127. Plaintiffs hereby fully incorporate by reference all allegations set forth in preceding Paragraphs 1 through 117 as if fully set forth at this point.

128. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, made material misrepresentations to Plaintiffs relating to Halliburton's financial condition and the value of Halliburton's securities, in and in connection with *inter alia* the following communications and SEC filings: the 1998

Financials, the 1/25/99 Audit Report, the 1998 10-K, the 7/22/99 Press Release, the 8/13/99 10-Q, the 10/21/99 Press Release, the 11/15/99 10-Q, the 1/27/2000 Press Release, the 1999 Financials, the 1/27/2000 Audit Report, the 1999 10-K, the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, the 2000 10-K, the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and 2001 10-K.

129. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, concealed material information relating to Halliburton's financial condition and the value of Halliburton's securities – e.g., the material understatement of liabilities, and the material overstatement of income or assets – in and in connection with *inter alia* the following communications and SEC filings: the 1998 Financials, the 1/25/99 Audit Report, the 1998 10-K, the 7/22/99 Press Release, the 8/13/99 10-Q, the 10/21/99 Press Release, the 11/15/99 10-Q, the 1/27/2000 Press Release, the 1999 Financials, the 1/27/2000 Audit Report, the 1999 10-K, the 7/26/2000 Press Release, the 8/10/2000 10-Q, the 10/24/2000 Press Release, the 11/19/2000 10-Q, the 1/30/2001 Press Release, the 2000 Financials, the 1/30/2001 Audit Report, the 2000 10-K, the 4/26/2001 Press Release, the 5/11/2001 10-Q, the 7/25/2001 Press Release, the 8/9/2001 10-Q, the 10/23/2001 Press Release, the 11/8/2001 10-Q, the 1/23/2002 Press Release, the 2001 Financials, the 1/23/2002 Audit Report, and the 2001 10-K. As a result of the foregoing concealment of material information, the affirmative representations that were made relating to Halliburton's financial condition and the value of Halliburton's securities were at all relevant times materially incomplete, misleading, and fraudulent misrepresentations.

130. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, made *inter alia* the foregoing misrepresentations intentionally, wilfully, maliciously, with knowledge of, or with recklessness as to the materially incomplete, misleading, and fraudulent nature of the misrepresentations.

131. On information and belief, Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, intended and/or had reason to expect that their foregoing misrepresentations would be relied upon by Plaintiffs, would influence and manipulate the market for Halliburton securities, and would artificially inflate the price paid and received in all purchases and sales thereof, from a date currently unknown but no later than 1998, for as long as possible into 2002.

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132. On information and belief, the foregoing misrepresentations of Halliburton, the Director and Officer Defendants, and the Accountant Defendants, acting in agreement, concert, and conspiracy with each other, jointly and severally, as set forth fully above, did in fact induce reliance on the misrepresentations, manipulate and influence the market for Halliburton securities, and artificially inflate the market price paid and received in all purchases and sales thereof, from a date currently unknown but no later than 1998, until May 22, 2002.

133. Plaintiffs reasonably and justifiably relied on the foregoing misrepresentations, on the integrity of the securities market, and/or on the absence of a fraud on the securities market in purchasing and selling securities, as set forth more fully above.

134. As a direct and proximate result of the Defendants' pervasive fraud and conspiracy against shareholders, potential investors, and the integrity of the securities market, as set forth fully above, Plaintiffs have suffered injury and damages in that they were fraudulently induced to purchase securities at artificially inflated prices and lost some or all of the actual or projected amount and value of their investments, in amounts according to proof at trial.

135. The foregoing fraud and conspiracy perpetrated by the Defendants, jointly and severally, was aggravated by the kind of fraud for which Texas law allows the imposition of punitive and exemplary damages, in that the Defendants (in concert and conspiracy with each other) made material representations that were false, knowing that they were false or with reckless disregard as to their truth and as positive assertions, with the intent that Plaintiffs rely on the representations. In fact, Plaintiffs relied on the representations and suffered injury and damages as a result of this reliance. Hence, Plaintiffs seek punitive and exemplary damages in the maximum amount authorized by Texas law.

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PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for the following relief:

1. For judgment in favor of Plaintiffs against all Defendants, jointly and severally;
2. For general damages, according to proof at trial;
3. For consequential damages, according to proof at trial;
4. For exemplary and punitive damages, according to proof at trial;

5. For all other damages permitted by law, according to proof at trial;
6. For attorneys' fees;
7. For expert witness fees;
8. For costs for copies of depositions;
9. For costs of court;
10. For all other costs and expenses permitted by law; and

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11. For all other and further relief that the Court deems just and proper.

Dated: July 10, 2002

Respectfully

Submitted,

JUDICIAL WATCH, INC.

Of Counsel:

JUDICIAL

WATCH, INC

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DEMAND FOR JURY TRIAL ON NEXT PAGE

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DEMAND FOR JURY TRIAL

Plaintiffs hereby demand trial by jury.

Dated: July 10, 2002

Respectfully Submitted,
JUDICIAL WATCH, INC.

Of Counsel:

By: _____

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