Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2011

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File Number 1-33146

KBR, Inc.

(a Delaware Corporation)
20-4536774

601 Jefferson Street
Suite 3400
Houston, Texas 77002
(Address of Principal Executive Offices)

Telephone Number – Area Code (713) 753-3011

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 15, 2011, there were 151,552,430 shares of KBR, Inc. common stock, $0.001 par value per share, outstanding.

KBR, Inc.

Index

Forward-Looking and Cautionary Statements

This report contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward looking information. Some of the statements contained in this quarterly report are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "plan," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, factors that could cause actual future results to differ materially include the risks and uncertainties disclosed in our 2010 Annual Report on Form 10-K contained in Part I under "Risk Factors".

Many of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially and adversely affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially and adversely from those projected in the forward-looking statements. We caution against putting undue reliance on forward-looking statements or projecting any future results based on such statements or on present or prior earnings levels. In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statement.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KBR, Inc.
Condensed Consolidated Statements of Income
(In millions, except for per share data)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenue:		
Services	$2,277	$2,616
Equity in earnings of unconsolidated affiliates, net	44	15
Total revenue	2,321	2,631
Operating costs and expenses:		
Cost of services	2,134	2,483
General and administrative	44	49
Gain on disposition of assets, net	(1)	—
Total operating costs and expenses	2,177	2,532
Operating income	144	99
Interest expense, net	(5)	(4)
Foreign currency gains (losses), net	1	(2)
Other non-operating expense	(1)	—
Income before income taxes and noncontrolling interests	139	93
Less: Provision for income taxes	22	34
Net income	117	59
Less: Net income attributable to noncontrolling interests	12	13
Net income attributable to KBR	$ 105	$ 46
Net income attributable to KBR per share:		
Basic	$ 0.69	$ 0.29
Diluted	$ 0.69	$ 0.29
Basic weighted average common shares outstanding	151	160
Diluted weighted average common shares outstanding	152	161
Cash dividends declared per share	$ 0.05	$ —

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Balance Sheets
(In millions except share data)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and equivalents	$ 788	$ 786
Receivables:		
Accounts receivable, net of allowance for bad debts of $26 and $27	1,398	1,455
Unbilled receivables on uncompleted contracts	468	428
Total receivables	1,866	1,883
Deferred income taxes	190	199
Other current assets	385	394
Total current assets	3,229	3,262
Property, plant, and equipment, net of accumulated depreciation of $343 and $334 (including $81 and $80, net, owned by a variable interest entity – see Note 12)	374	355
Goodwill	951	947
Intangible assets, net	125	127
Equity in and advances to related companies	241	219
Noncurrent deferred income taxes	101	103
Noncurrent unbilled receivables on uncompleted contracts	322	320
Other assets	124	84
Total assets	$ 5,467	$ 5,417
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 905	$ 921
Due to former parent, net	43	43
Obligation to former noncontrolling interest (Note 3)	20	180
Advance billings on uncompleted contracts	593	498
Reserve for estimated losses on uncompleted contracts	26	26
Employee compensation and benefits	237	200
Current non-recourse project-finance debt of a variable interest entity (Note 12)	9	9
Other current liabilities	513	470
Total current liabilities	2,346	2,347
Noncurrent employee compensation and benefits	360	397
Noncurrent non-recourse project-finance debt of a variable interest entity (Note 12)	97	92
Other noncurrent liabilities	148	132
Noncurrent income tax payable	108	128
Noncurrent deferred tax liability	119	117
Total liabilities	3,178	3,213
KBR Shareholders' equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, $0.001 par value, 300,000,000 shares authorized, 171,812,229 and 171,448,067 shares issued, and 151,493,710 and 151,132,049 shares outstanding	—	—
Paid-in capital in excess of par	1,989	1,981
Accumulated other comprehensive loss	(432)	(438)
Retained earnings	1,254	1,157
Treasury stock, 20,318,519 shares and 20,316,018 shares, at cost	(455)	(454)
Total KBR shareholders' equity	2,356	2,246
Noncontrolling interests	(67)	(42)
Total shareholders' equity	2,289	2,204
Total liabilities and shareholders' equity	$ 5,467	$ 5,417

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Net income	$ 117	$ 59
Other comprehensive income (loss), net of tax benefit (provision):		
Net cumulative translation adjustments	4	2
Pension liability adjustments	5	3
Net unrealized gains (losses) on derivatives	(3)	3
Total other comprehensive income, net of tax	6	8
Comprehensive income	123	67
Less: Comprehensive income attributable to noncontrolling interests	(12)	(13)
Comprehensive income attributable to KBR	$ 111	$ 54

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	$ 117	$ 59
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	17	15
Equity in earnings of unconsolidated affiliates	(44)	(15)
Deferred income taxes	9	(17)
Other	1	8
Changes in operating assets and liabilities:		
Receivables	82	(438)
Unbilled receivables on uncompleted contracts	(27)	155
Accounts payable	(29)	(28)
Advanced billings on uncompleted contracts	80	169
Accrued employee compensation and benefits	38	74
Reserve for loss on uncompleted contracts	—	(4)
Collection (repayment) of advances from (to) unconsolidated affiliates, net	23	(1)
Distribution of earnings from unconsolidated affiliates	9	9
Other assets	(17)	(3)
Other liabilities	(34)	12
Total cash flows provided by (used in) operating activities	225	(5)
Cash flows from investing activities:		
Capital expenditures	(26)	(14)
Investment in equity method joint ventures	(8)	(4)
Investment in licensing arrangement	—	(20)
Total cash flows used in investing activities	(34)	(38)
Cash flows from financing activities:		
Acquisition of noncontrolling interest	(164)	—
Payments to reacquire common stock	(2)	(1)
Distributions to noncontrolling interests, net	(37)	(7)
Payments of dividends to shareholders	(8)	(8)
Net proceeds from issuance of stock	3	—
Excess tax benefits from stock-based compensation	1	—
Return of cash collateral on letters of credit, net	5	17
Total cash flows provided by (used in) financing activities	(202)	1
Effect of exchange rate changes on cash	13	(13)
Increase (decrease) in cash and equivalents	2	(55)
Cash increase due to consolidation of a variable interest entity	—	22
Cash and equivalents at beginning of period	786	941
Cash and equivalents at end of period	$ 788	$ 908

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Statements of Cash Flows (continued)
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Noncash activities:		
Noncash operating activities		
Other assets (Note 8)	$ —	$ 47
Other liabilities (Note 8)	$ —	$ (47)
Noncash financing activities		
Dividends declared	$ 8	$ —

See accompanying notes to condensed consolidated financial statements.

Note 1. Description of Business and Basis of Presentation

KBR, Inc., a Delaware corporation, was formed on March 21, 2006. KBR, Inc. and its subsidiaries (collectively, "KBR") is a global engineering, construction and services company supporting the energy, petrochemicals, government services, industrial and civil infrastructure sectors. Headquartered in Houston, Texas, we offer a wide range of services through our Hydrocarbons, Infrastructure, Government and Power ("IGP"), Services and Other business segments. See Note 5 for additional financial information about our reportable business segments.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules of the United States Securities and Exchange Commission ("SEC") for interim financial statements and do not include all annual disclosures required by accounting principles generally accepted in the United States ("U.S. GAAP"). These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC. We believe that the presentation and disclosures herein are adequate to make the information not misleading, and the condensed consolidated financial statements reflect all normal adjustments that management considers necessary for a fair presentation of our consolidated results of operations, financial position and cash flows. Operating results for interim periods are not necessarily indicative of results to be expected for the full fiscal year 2011 or any other future periods.

The preparation of our condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and costs during the reporting periods. Actual results could differ materially from those estimates. On an ongoing basis, we review our estimates based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

Our condensed consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and variable interest entities where we are the primary beneficiary. The equity method is used to account for investments in affiliates in which we have the ability to exert significant influence over the affiliates' operating and financial policies. The cost method is used when we do not have the ability to exert significant influence. Intercompany accounts and transactions are eliminated.

Note 2. Income per Share

Basic income per share is based upon the weighted average number of common shares outstanding during the period. Dilutive income per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued, using the treasury stock method. A reconciliation of the number of shares used for the basic and diluted income per share calculations is as follows:

	Three Months Ended March 31,	
Millions of shares	2011	2010
Basic weighted average common shares outstanding	151	160
Stock options and restricted shares	1	1
Diluted weighted average common shares outstanding	152	161

The amount of antidilutive weighted average shares was immaterial for the three months ended March 31, 2011. The diluted earnings per share calculation did not include 1.4 million antidilutive weighted average shares for the three months ended March 31, 2010.

Note 3. Business Combinations and Other Transactions

Business Combinations

ENI Holdings, Inc. (the "Roberts & Schaefer Company"). On December 21, 2010, we completed the acquisition of 100% of the outstanding common shares of ENI Holdings, Inc. ("ENI"). ENI is the parent to the Roberts & Schaefer Company ("R&S"), a privately held, EPC services company for material handling and processing systems. Headquartered in Chicago, Illinois, R&S provides services and associated processing infrastructure to customers in the mining and minerals, power, industrial, refining, aggregates, precious and base metals industries.

The purchase price was $280 million plus preliminary net working capital of $17 million which included cash acquired of $8 million. The total net cash paid at closing of $289 million is subject to post-closing adjustments. The purchase price is subject to an escrowed holdback amount of $43 million to secure post-closing working capital adjustments, indemnifications obligations of the sellers and other contingent obligations related to the operations of the business. During the first quarter of 2011, we recorded an increase to goodwill of approximately $3 million primarily associated with additional purchase consideration payable to the seller based upon our estimates of post-closing working capital adjustments and final valuation of acquired intangible assets. R&S' operating results are reported in our IGP segment.

Other Transactions

M.W. Kellogg Limited ("MWKL"). On December 31, 2010, we obtained control of the remaining 44.94% interest in our MWKL subsidiary located in the U.K for approximately £107 million subject to certain post-closing adjustments. The initial purchase price of $164 million was paid on January 5, 2011. In addition, we agreed to pay the former noncontrolling interest 44.94% of future proceeds collected on certain receivables owed to MWKL. Furthermore, the former noncontrolling interest agreed to indemnify us for 44.94% of certain MWKL liabilities to be settled and paid in the future. As of March 31, 2011, we had recorded a net liability of approximately $20 million recorded as "Obligation to former noncontrolling interest" reflecting our estimate of future proceeds from certain receivables owed to MWKL.

LNG Joint Venture. On January 5, 2011, we sold our 50% interest in a joint venture to our joint venture partner for approximately $22 million. The joint venture was formed to execute an EPC contract for construction of an LNG plant in Indonesia which is nearing completion. We recognized a gain on the sale of our interest of approximately $8 million which is included in "Equity in earnings of unconsolidated affiliates, net" in our consolidated income statement for the three months ended March 31, 2011.

Note 4. Percentage-of-Completion Contracts

Unapproved claims

The amounts of unapproved claims and change orders included in determining the profit or loss on contracts and recorded in current and non-current unbilled receivables on uncompleted contracts are as follows:

Millions of dollars	March 31, 2011	December 31, 2010
Probable unapproved claims	$ 26	$ 19
Probable unapproved change orders	3	10
Probable unapproved change orders related to unconsolidated subsidiaries	—	3

As of March 31, 2011, the probable unapproved claims related to several completed projects. Contracts with probable unapproved claims that will likely not be settled within one year totaled $20 million at March 31, 2011, and $19 million at December 31, 2010, and are reflected as a non-current asset in "Noncurrent unbilled receivables on uncompleted contracts" in our condensed consolidated balance sheets. Other probable unapproved claims and change orders that we believe will be settled within one year, have been recorded as a current asset in "Unbilled receivables on uncompleted contracts" in our condensed consolidated balance sheets. See Note 7 for a discussion of U.S. government contract claims, which are not included in the table above.

PEMEX Arbitration. In 1997 and 1998 we entered into three contracts with PEMEX, the project owner, to build offshore platforms, pipelines and related structures in the Bay of Campeche offshore Mexico. The three contracts were known as Engineering, Procurement and Construction ("EPC") 1, EPC 22 and EPC 28. All three projects encountered significant schedule delays and increased costs due to problems with design work, late delivery and defects in equipment, increases in scope and other changes. PEMEX took possession of the offshore facilities of EPC 1 in March 2004 after having achieved oil production but prior to our completion of our scope of work pursuant to the contract.

We filed for arbitration with the International Chamber of Commerce ("ICC") in 2004 claiming recovery of damages of $323 million for the EPC 1 project. PEMEX subsequently filed counterclaims totaling $157 million. In December 2009, the ICC ruled in our favor and we were awarded a total of approximately $351 million including legal and administrative recovery fees as well as interest. PEMEX was awarded approximately $6 million on counterclaims, plus interest on a portion of that sum. In connection with this award, we recognized a gain of $117 million net of tax in 2009. The arbitration award is legally binding and on November 2, 2010, we received a judgment in our favor in U.S. Federal Court to recognize the award in the U.S. of approximately $356 million plus interest thereon until paid. PEMEX initiated an appeal and a stay related to the enforcement of the judgment which was granted by the Lower District Court and PEMEX was required to post collateral of $395 million with the court registry.

PEMEX attempted to nullify the award in Mexican court which was rejected by the Mexican trial court. PEMEX has filed additional appeals in the Mexican Courts. We will respond to further efforts by PEMEX to nullify our award as may be required. Although it is possible we could resolve and collect the amounts due from PEMEX in the next 12 months, we believe the timing of the collection of the award is uncertain and therefore, we have continued to classify the amount due from PEMEX as a long term receivable included in "Noncurrent unbilled receivable on uncompleted contracts" as of March 31, 2011. No adjustments have been made to our receivable balance since recognition of the initial award in 2009. Depending on the timing and amount ultimately settled with PEMEX, including interest, we could recognize an additional gain upon collection of the award.

Note 5. Business Segment Information

We provide a wide range of services, but the management of our business is heavily focused on major projects within each of our reportable segments. At any given time, a relatively few number of projects and joint ventures represent a substantial part of our operations. Our equity in earnings and losses of unconsolidated affiliates that are accounted for using the equity method of accounting is included in revenue of the applicable segment.

Operating segment performance is evaluated by our chief operating decision maker using operating segment income which is defined as operating segment revenue less the cost of services and segment overhead directly attributable to the operating segment. Intersegment revenues are eliminated from operating segment revenues. Operating segment income excludes certain cost of services directly attributable to the operating segment that is managed and reported at the corporate level, and corporate general and administrative expenses. Labor cost absorption represents costs incurred by our central service labor and resource groups (above)/under the amounts charged to the operating segments.

The table below presents information on our reportable business segments.

Millions of dollars	Three Months Ended March 31, 2011	2010
Revenue:		
Hydrocarbons	$ 1,047	$ 922
Infrastructure, Government and Power	855	1,274
Services	397	415
Other	22	20
Total revenue	$2,321	$2,631
Operating segment income:		
Hydrocarbons	$ 99	$ 76
Infrastructure, Government and Power	61	46
Services	13	21
Other	12	9
Operating segment income	185	152
Unallocated amounts:		
Labor cost absorption	3	(4)
Corporate general and administrative	(44)	(49)
Total operating income	$ 144	$ 99

Note 6. Committed and Restricted Cash

Cash and equivalents include cash related to contracts in progress as well as cash held by our joint ventures that we consolidate for accounting purposes. Joint venture cash balances are limited to joint venture activities and are not available for other projects, general cash needs, or distribution to us without approval of the board of directors of the respective joint ventures. Cash held by our joint ventures that we consolidate for accounting purposes totaled approximately $207 million at March 31, 2011 and $136 million at December 31, 2010. We expect to use the cash on these projects to pay project costs.

Restricted cash consists of amounts held in deposit with certain banks to collateralize standby letters of credit. Our current restricted cash is included in “Other current assets” and our non-current restricted cash is included in “Other assets” on our condensed consolidated financial statements. Our restricted cash balances are presented in the table below:

Millions of dollars	March 31, 2011	December 31, 2010
Current restricted cash	$ 7	$ 11
Non-current restricted cash	8	10
Total restricted cash	$ 15	$ 21

Note 7. United States Government Contract Work

We provide substantial work under our government contracts to the United States Department of Defense and other governmental agencies. These contracts include our worldwide United States Army logistics contracts, known as LogCAP III and IV.

Given the demands of working in Iraq and elsewhere for the U.S. government, as discussed further below, we have disagreements and have experienced performance issues with the various government customers for which we work. When performance issues arise under any of our government contracts, the government retains the right to pursue remedies, which could include termination, under any affected contract. If any contract were so terminated, we may not receive award fees under the affected contract, and our ability to secure future contracts could be adversely affected, although we would receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that could be sought by our government customers for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines, and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts, and may also have a material adverse effect on our business, financial condition, results of operations, and cash flow.

We have experienced and expect to be a party to various claims against us by employees, third parties, soldiers, subcontractors and others that have arisen out of our work in Iraq such as claims for wrongful termination, assaults against employees, personal injury claims by third parties and army personnel, and subcontractor claims. While we believe we conduct our operations safely, the environments in which we operate often lead to these types of claims. We believe the vast majority of these types of claims are governed by the Defense Base Act or precluded by other defenses. We have a dispute resolution program under which most employment claims are subject to binding arbitration. However, as a result of amendments to the Department of Defense Appropriations Act of 2010, certain types of employee claims cannot be compelled to binding arbitration. An unfavorable resolution or disposition of these matters could have a material adverse effect on our business, results of operations, financial condition and cash flow.

Award Fees

In accordance with the provisions of the LogCAP III contract, we recognize revenue on our services rendered on a task order basis based on either a cost-plus-fixed-fee or cost-plus-base-fee and award fee arrangement. Both fees are determined as a percentage rate applied to a negotiated estimate of the total costs for each task order. For task orders under an award fee arrangement, our customer is contractually obligated to periodically convene Award-Fee Boards, which are comprised of individuals who have been designated to assist the Award Fee Determining Official (“AFDO”) in making award fee determinations. The amounts of award fees are determined at the sole discretion of the AFDO.

During the first quarter of 2010, we determined that we could no longer reliably estimate fees to be awarded by the AFDO and, accordingly, adjusted our accrual rate to 0%. Until such time as we are able to resume making reliable fee estimates on the LogCAP III contract, we will recognize award fees only when awarded. No award fees were awarded to us in the first quarter of 2010. During the first quarter of 2011, we were awarded and recognized revenue for award fees of $16 million representing approximately 53% of the available award fee pool for the periods of performance from March 2010 through August 2010 on task orders in Iraq. We were awarded ratings of “very good” on these task orders.

In August of 2010, we executed a contract modification to the LogCAP III contract on the base life support task order in Iraq that resulted in an increase to our base fee on costs incurred and an increase in the maximum award fee on negotiated costs for the period of performance from September 2010 through February 2011. We expect to receive award fees for this period of performance during the third quarter of 2011. During the first quarter of 2011, we finalized negotiations with our customer and converted the task order from cost-plus-base-fee and award fee to cost-plus-fixed-fee for the period of performance beginning in March 2011. We recognize revenues for the fixed-fee component on the basis of proportionate performance as services are performed.

Government Compliance Matters

The negotiation, administration, and settlement of our contracts with the U.S. Government, consisting primarily of Department of Defense contracts, are subject to audit by the Defense Contract Audit Agency ("DCAA"), which serves in an advisory role to the Defense Contract Management Agency ("DCMA") which is responsible for the administration of our contracts. The scope of these audits include, among other things, the allowability, allocability, and reasonableness of incurred costs, approval of annual overhead rates, compliance with the Federal Acquisition Regulation ("FAR") and Cost Accounting Standards ("CAS"), compliance with certain unique contract clauses, and audits of certain aspects of our internal control systems. Issues identified during these audits are typically discussed and reviewed with us, and certain matters are included in audit reports issued by the DCAA, with its recommendations to our customer's administrative contracting officer ("ACO"). We attempt to resolve all issues identified in audit reports by working directly with the DCAA and the ACO. When agreement cannot be reached, DCAA may issue a Form 1, "Notice of Contract Costs Suspended and/or Disapproved," which recommends withholding the previously paid amounts or it may issue an advisory report to the ACO. KBR is permitted to respond to these documents and provide additional support. At March 31, 2011, open Form 1's from the DCAA recommending suspension of payments totaling approximately $377 million associated with our contract costs incurred in prior years, of which approximately $162 million has been withheld from our current billings. As a consequence, for certain of these matters, we have withheld approximately $78 million from our subcontractors under the payment terms of those contracts. In addition, we have outstanding demand letters received from our customer requesting that we remit a total of $84 million of disapproved costs for which we do not believe we have a legal obligation to pay. We continue to work with our ACO's, the DCAA and our subcontractors to resolve these issues. However, for certain of these matters, we have filed claims with the Armed Services Board of Contract Appeals ("ASBCA") or the United States Court of Federal Claims ("U.S. COFC").

KBR excludes from billings to the U.S. Government costs that are unallowable, expressly unallowable, or mutually agreed to be unallowable, or not allocable to government contracts per applicable regulations. Revenue recorded for government contract work is reduced at the time we identify and estimate potentially refundable costs related to issues that may be categorized as disputed or unallowable as a result of cost overruns or the audit process. Our estimates of potentially unallowable costs are based upon, among other things, our internal analysis of the facts and circumstances, terms of the contracts and the applicable provisions of the FAR and CAS, quality of supporting documentation for costs incurred, and subcontract terms as applicable. From time to time, we engage outside counsel to advise us on certain matters in determining whether certain costs are allowable. We also review our analysis and findings with the ACO as appropriate. In some cases, we may not reach agreement with the DCAA or the ACO regarding potentially unallowable costs which may result in our filing of claims in various courts such as the ASBCA or the U.S. COFC. We only include amounts in revenue related to disputed and potentially unallowable costs when we determine it is probable that such costs will result in the collection of revenue. We generally do not recognize additional revenue for disputed or potentially unallowable costs for which revenue has been previously reduced until we reach agreement with the DCAA and/or the ACO that such costs are allowable.

Certain issues raised as a result of contract audits and other investigations are discussed below.

Private Security. In 2007, we received a Form 1 from the Department of the Army informing us of their intent to adjust payments under the LogCAP III contract associated with the cost incurred for the years 2003 through 2006 by certain of our subcontractors to provide security to their employees. Based on that notice, the Army withheld its initial assessment of $20 million. The Army based its initial assessment on one subcontract wherein, based on communications with the subcontractor, the Army estimated 6% of the total subcontract costs related to the private security. The Army previously indicated that not all task orders and subcontracts had been reviewed and that they may make additional adjustments. We subsequently received Form 1's from the DCAA disapproving an additional $83 million of costs incurred by us and our subcontractors to provide security during the same periods. Since that time, the Army withheld an additional $24 million in payments from us bringing the total payments withheld to approximately $44 million as of March 31, 2011 out of the Form 1's issued to date of $103 million.

The Army indicated that they believe our LogCAP III contract prohibits us and our subcontractors from billing costs of privately acquired security. We believe that, while the LogCAP III contract anticipates that the Army will provide force protection to KBR employees, it does not prohibit us or any of our subcontractors from using private security services to provide force protection to KBR or subcontractor personnel. In addition, a significant portion of our subcontracts are competitively bid fixed price subcontracts. As a result, we do not receive details of the subcontractors' cost estimate nor are we legally entitled to it. Further, we have not paid our subcontractors any additional compensation for security services. Accordingly, we believe that we are entitled to reimbursement by the Army for the cost of services provided by us or our subcontractors, even if they incurred costs for private force protection services. Therefore, we do not agree with the Army's position that such costs are unallowable and that they are entitled to withhold amounts incurred for such costs.

We have provided at the Army's request information that addresses the use of armed security either directly or indirectly charged to LogCAP III. To date, we have filed appeals to the ASBCA to recover $44 million of the amounts withheld from us. We believe these sums were properly billed under our contract with the Army. At this time, we believe the likelihood that a loss related to this matter has been incurred is remote. We have not adjusted our revenues or accrued any amounts related to this matter. This matter is also the subject of a separate claim filed by the Department of Justice ("DOJ") for alleged violation of the False Claims Act as discussed further below under the heading "Investigations, Qui Tams and Litigation."

Containers. In June 2005, the DCAA recommended withholding certain costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. The DCMA agreed that the costs be withheld pending receipt of additional explanation or documentation to support the subcontract costs. We have not received a final determination by the DCMA and, as requested, we continue to provide information to the DCMA. During the first quarter of 2011, we received a Form 1 from the DCAA disapproving approximately $25 million in costs related to containerized housing that had previously been deemed allowable. As of March 31, 2011, approximately $51 million of costs have been suspended under Form 1's of which $26 million have been withheld from us by our customer. We have withheld $30 million from our subcontractor related to this matter. In April 2008, we filed a counterclaim in arbitration against our LogCAP III subcontractor, First Kuwaiti Trading Company, to recover the $51 million we paid to the subcontractor for containerized housing as further described under the caption First Kuwaiti Trading Company arbitration below. During the first quarter of 2011, we filed a claim to the ASBCA to recover the $51 million of the amounts withheld from us by our customer. We believe that the costs incurred associated with providing containerized housing are reasonable and we intend to vigorously defend ourselves in this matter. We do not believe that we face a risk of significant loss from any disallowance of these costs in excess of the amounts we have withheld from subcontractors and the loss accruals we have recorded. At this time, we believe the likelihood that a loss in excess of the amount accrued for this matter is remote.

Dining facilities. In 2006, the DCAA raised questions regarding our billings and price reasonableness of costs related to dining facilities in Iraq. We responded to the DCMA that our costs are reasonable. As of March 31, 2011, we have outstanding Form 1's from the DCAA disapproving $164 million in costs related to these dining facilities until such time we provide documentation to support the price reasonableness of the rates negotiated with our subcontractor and demonstrate that the amounts billed were in accordance with the contract terms. We believe the prices obtained for these services were reasonable and intend to vigorously defend ourselves on this matter. We filed claims in the U.S. COFC to recover $55 million of the $82 million withheld from us by the customer. The claims proceedings are in the discovery process and no trial date has been set but is expected to occur in 2011. With respect to questions raised regarding billing in accordance with contract terms, as of March 31, 2011, we believe it is reasonably possible that we could incur losses in excess of the amount accrued for possible subcontractor costs billed to the customer that were possibly not in accordance with contract terms. However, we are unable to estimate an amount of possible loss or range of possible loss in excess of the amount accrued related to any costs billed to the customer that were not in accordance with the contract terms. We believe the prices obtained for these services were reasonable, we intend to vigorously defend ourselves in this matter and we do not believe we face a risk of significant loss from any disallowance of these costs in excess of amounts withheld from subcontractors. As of March 31, 2011, we had withheld $38 million in payments from our subcontractors pending the resolution of these matters with our customer.

In 2009, one of our subcontractors, Tamimi, filed for arbitration to recover approximately $35 million for payments we have withheld from them pending the resolution of the Form 1's with our customer. In December 2010, the arbitration panel ruled that the subcontract terms were not sufficient to hold retention from Tamimi for price reasonableness matters and awarded the subcontractor $38 million including interest thereon and certain legal costs. As noted above, we have claims pending in the U.S. COFC to recover these amounts from the U.S. government and we believe it is probable that we will recover such amounts. Additionally, in March 2011, the U.S. government filed a counterclaim alleging KBR employees accepted bribes from Tamimi in exchange for awarding a master agreement for DFAC services to Tamimi. The government seeks disgorgement of all funds paid to KBR under the master agreement as well as all award fees paid to KBR under the related task orders. We have evaluated the government's counterclaim and believe it to be without merit. Trial for the claims in the U.S. COFC is scheduled to begin in June 2011.

Transportation costs. In 2007, the DCAA, raised a question about our compliance with the provisions of the Fly America Act. During the first quarter of 2011, we received a Form 1 from the DCAA totaling $6 million for alleged violations of the Fly America Act in 2004. Subject to certain exceptions, the Fly America Act requires Federal employees and others performing U.S. Government-financed foreign air travel to travel by U.S. flag air carriers. There are times when we transported personnel in connection with our services for the U.S. military where we may not have been in compliance with the Fly America Act and its interpretations through the Federal Acquisition Regulations and the Comptroller General. Included in our March 31, 2011 and December 31, 2010 accompanying balance sheets, is an accrued estimate of the cost incurred for these potentially non-compliant flights. The DCAA may consider additional flights to be noncompliant resulting in potential larger amounts of disallowed costs than the amount we have accrued. At this time, we cannot estimate a range of reasonably possible losses that may have been incurred, if any, in excess of the amount accrued. We will continue to work with our customer to resolve this matter.

In the first quarter of 2011, we received a Form 1 form the DCAA disapproving certain personnel replacement costs totaling approximately $27 million associated with replacing employees who were deployed in Iraq and Afghanistan for less than 179 days. The DCAA claims these replacement costs violate the terms of the LogCAP III contract which expressly disallow certain costs associated with the contractor rotation of employees who have deployed less than 179 days including costs for transportation, lodging, meals, orientation and various forms of per diem allowances. We disagree with the DCAA's interpretation and application of the contract terms as it was applied to circumstances outside of our control including sickness, death, termination for cause or resignation and that such costs should be allowable. We believe the risk of loss associated with the disallowance of these costs is remote. As of March 31, 2011, we had not accrued any amounts related to this matter.

Construction services. As of March 31, 2011, we have outstanding Form 1's from the DCAA disapproving approximately $25 million in costs related to work performed under our CONCAP III contract with the U.S. Navy to provide emergency construction services primarily to Government facilities damaged by Hurricanes Katrina and Wilma. The DCAA claims the costs billed to the U.S. Navy primarily related to subcontract costs that were either inappropriately bid, included unallowable profit markup or were unreasonable. In April 2010, we met with the U.S. Navy in an attempt to settle the potentially unallowable costs. As a result of the meeting, approximately $7 million of the potentially unallowable costs was agreed to be allowable and approximately $1 million unallowable. Settlement of the remaining disputed amounts is pending further discussions with the customer regarding the applicable provisions of the FAR and interpretations thereof, as well as providing additional supporting documentation to the customer. As of March 31, 2011, the U.S. Navy has withheld approximately $10 million from us. We believe we undertook adequate and reasonable steps to ensure that proper bidding procedures were followed and the amounts billed to the customer were reasonable and not in violation of the FAR. As of March 31, 2011, we have accrued our estimate of probable loss related to this matter; however, it is reasonably possible we could incur additional losses.

Investigations and Litigation

The following matters relate to ongoing litigation or investigations involving U.S. government contracts.

First Kuwaiti Trading Company arbitration. In April 2008, First Kuwaiti Trading Company, one of our LogCAP III subcontractors, filed for arbitration of a subcontract under which KBR had leased vehicles related to work performed on our LogCAP III contract. First Kuwaiti alleged that we did not return or pay rent for many of the vehicles and seeks damages in the amount of $134 million. We filed a counterclaim to recover amounts which may ultimately be determined due to the Government for the $51 million in suspended costs as discussed in the preceding section of this footnote titled "Containers." Three arbitration hearings took place in 2010 in Washington, D.C. primarily related to claims involving unpaid rents and damages on lost or unreturned vehicles totaling approximately $77 million for which the arbitration panel awarded $7 million to FKTC plus an unquantified amount for repair costs on certain vehicles, damages suffered as a result of late vehicle returns, and interest thereon, to be determined at a later date. No payments are expected to occur until all claims are arbitrated and awards finalized. The next arbitration hearing is scheduled to occur in May 2011 and we believe any damages ultimately awarded to First Kuwaiti will be billable under the LogCAP III contract. Accordingly, we have accrued amounts payable and a related unbilled receivable for the amounts awarded to First Kuwaiti pursuant to the terms of the contract.

Electrocution litigation. During 2008, a lawsuit was filed against KBR alleging that the Company was responsible for an electrical incident which resulted in the death of a soldier. This incident occurred at the Radwaniyah Palace Complex. It is alleged in the suit that the electrocution incident was caused by improper electrical maintenance or other electrical work. We intend to vigorously defend this matter. KBR denies that its conduct was the cause of the event and denies legal responsibility. The case was removed to Federal Court where motion to dismiss was filed. The court issued a stay in the discovery of the case, pending an appeal of certain pre-trial motions to dismiss that were previously denied. In August 2010, the Court of Appeal dismissed our appeal concluding it did not have jurisdiction. The case is currently proceeding with the discovery process. We are unable to determine the likely outcome nor can we estimate a range of potential loss, if any, related to this matter at this time. As of March 31, 2011, no amounts have been accrued.

Burn Pit litigation. KBR has been served with over 50 lawsuits in various states alleging exposure to toxic materials resulting from the operation of burn pits in Iraq or Afghanistan in connection with services provided by KBR under the LogCAP III contract. Each lawsuit has multiple named plaintiffs who purport to represent a large class of unnamed persons. The lawsuits primarily allege negligence, willful and wanton conduct, battery, intentional infliction of emotional harm, personal injury and failure to warn of dangerous and toxic exposures which has resulted in alleged illnesses for contractors and soldiers living and working in the bases where the pits are operated. All of the pending cases have been removed to Federal Court, the majority of which have been consolidated for multi-district litigation treatment. We filed a motion to strike an amended consolidated petition filed by the plaintiffs which was granted by the Court. The Court directed the parties to propose a plan for limited jurisdictional discovery. In December 2010, the Court stayed virtually all proceedings pending a decision from the Fourth Circuit Court of Appeals on three other cases involving the Political Question Doctrine and other jurisdictional issues. We intend to vigorously defend these matters. Due to the inherent uncertainties of litigation and because the litigation is at a preliminary stage, we cannot at this time accurately predict the ultimate outcome nor can we reliably estimate a range of possible loss, if any, related to this matter at this time. Accordingly, as of March 31, 2011, no amounts have been accrued.

Convoy Ambush litigation. In April 2004, a fuel convoy in route from Camp Anaconda to Baghdad International Airport for the U.S. Army under our LogCAP III contract was ambushed resulting in deaths and severe injuries to truck drivers hired by KBR. In 2005, survivors of the drivers killed and those that were injured in the convoy, filed suit in state court in Houston, Texas against KBR and several of its affiliates, claiming KBR deliberately intended that the drivers in the convoy would be attacked and wounded or killed. The suit also alleges KBR committed fraud in its hiring practices by failing to disclose the dangers associated with working in the Iraq combat zone. In September 2006, the case was dismissed based upon the court's ruling that it lacked jurisdiction because the case presented a non-justiciable political question. Subsequently, three additional suits were filed, arising out of insurgent attacks on other convoys that occurred in 2004 and were likewise dismissed as non-justiciable under the Political Question Doctrine. Currently, the cases are stayed pending our appeal in the Fifth Circuit Courts of Appeals on various grounds and we anticipated the appeal will be assigned to a three judge panel to be heard later in 2011. We are unable to determine the likely outcome of these cases at this time nor can we reliably estimate a range of possible loss, if any. Accordingly, as of March 31, 2011, no amounts have been accrued.

DOJ False Claims Act complaint. In April 2010, the DOJ filed a complaint in the U.S. District Court in the District of Columbia alleging certain violations of the False Claims Act related to the use of private security firms. The complaint alleges, among other things, that we made false or fraudulent claims for payment under the LogCAP III contract because we allegedly knew that they contained costs of services for or that included improper use of private security. We believe these sums were properly billed under our contract with the Army and that the use of private security was not prohibited under LogCAP III. We have filed motions to dismiss the complaint which are currently pending. We have not adjusted our revenues or accrued any amounts related to this matter.

Other Matters

Claims. Included in receivables in our consolidated balance sheets are unapproved claims for costs incurred under various government contracts totaling $147 million at March 31, 2011 of which $120 million is included in "Accounts receivable" and $27 million is included in "Unbilled receivables on uncompleted contracts." Unapproved claims relate to contracts where our costs have exceeded the customer's funded value of the task order. The $120 million of unapproved claims included in Accounts receivable results primarily from de-obligated funding on certain task orders that were also subject to Form 1's relating to certain DCAA audit issues discussed above. We believe such disputed costs will be resolved in our favor at which time the customer will be required to obligate funds from appropriations for the year in which resolution occurs. The remaining unapproved claims balance of approximately $27 million primarily represents costs for which incremental funding is pending in the normal course of business. The majority of costs in this category are normally funded within several months after the costs are incurred. The unapproved claims outstanding at March 31, 2011 are considered to be probable of collection and have been previously recognized as revenue.

Note 8. Other Commitments and Contingencies

Foreign Corrupt Practices Act ("FCPA") investigations

In February 2009, KBR LLC entered a guilty plea to violations of the FCPA in the United States District Court, Southern District of Texas, Houston Division (the "Court"), related to the Bonny Island investigation. KBR LLC pled guilty to one count of conspiring to violate the FCPA and four counts of violating the FCPA, all arising from the intent to bribe various Nigerian government officials through commissions paid to agents working on behalf of TSKJ on the Bonny Island project. The plea agreement reached with the DOJ resolved all criminal charges in the DOJ's investigation and called for the payment of a criminal penalty of $402 million, of which Halliburton was obligated to pay $382 million under the terms of the master separation agreement, while we were obligated to pay $20 million. We also agreed to a period of organizational probation of three years, during which we retain a monitor who assesses our compliance with the plea agreement and evaluates our FCPA compliance program over the three year period, with periodic reports to the DOJ. In addition, we settled a civil enforcement action by the SEC which called for Halliburton and KBR, jointly and severally, to make payments totaling $177 million, all of which was payable by Halliburton pursuant to the indemnification under the master separation agreement. As of December 31, 2010, all criminal and civil penalties to the DOJ and SEC were paid.

In addition to the DOJ and SEC investigations, the U.K. Serious Fraud Office ("SFO") conducted an investigation of activities by current and former employees of M. W. Kellogg Limited ("MWKL") regarding the Bonny Island project. During the investigation, MWKL self-reported to the SFO its corporate liability for corruption-related offenses arising out of the Bonny Island project and entered into a plea negotiation process under the "Attorney General's Guidelines on Plea Discussions in Cases of Serious and Complex Fraud" issued by the Attorney General for England and Wales. In February 2011, MWKL reached a settlement with the SFO in which the SFO accepted that MWKL was not party to any unlawful conduct and assessed a civil penalty of approximately $11 million including interest and reimbursement of certain costs of the investigation. The settlement terms included a full release of all claims against MWKL, its current and former parent companies, subsidiaries and other related parties including their respective current or former officers, directors and employees with respect to the Bonny Island project. As of December 31, 2010, we recorded a liability to the SFO of $11 million included in "Other current liabilities" in our consolidated balance sheet. Due to the indemnity from Halliburton under the master separation agreement, we recognized a receivable from Halliburton of approximately $6 million in "Due to former parent, net" in our consolidated balance sheet. As of March 31, 2011, we are not aware of any uncertainties related to the indemnity from Halliburton or any material limitations on our ability to recover amounts due to us for matters covered by the indemnity from Halliburton. All amounts due to the SFO were paid during the first quarter of 2011.

In addition, Halliburton settled corruption allegation claims asserted by the Federal Government of Nigeria in late 2010. The settlement provided a complete release to KBR and all of its affiliates and related companies in connection with any liability for matters related to the Bonny Island project in Nigeria.

Under the terms of the master separation agreement, Halliburton has agreed to indemnify us, and any of our greater than 50%-owned subsidiaries, for our share of fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of claims made or assessed by a governmental authority of the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria or a settlement thereof relating to FCPA and related corruption allegations, which could involve Halliburton and us through The M. W. Kellogg Company, MWKL, or their or our joint ventures in projects both in and outside of Nigeria, including the Bonny Island, Nigeria project. Halliburton's indemnity will not apply to any other losses, claims, liabilities or damages assessed against us as a result of or relating to FCPA matters and related corruption allegations or to any fines or other monetary penalties or direct monetary damages, including disgorgement, assessed by governmental authorities in jurisdictions other than the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria, or a settlement thereof, or assessed against entities such as TSKJ, in which we do not have an interest greater than 50%.

With the settlement of the DOJ, SEC, SFO and Nigerian investigations, all known investigations in the Bonny Island project have been concluded. We are not aware of any other corruption allegations against us by governmental authorities in foreign jurisdictions.

Commercial Agent Fees

We have, both before and after the separation from our former parent, used commercial agents on some of our large-scale international projects to assist in understanding customer needs, local content requirements, vendor selection criteria and processes and in communicating information from us regarding our services and pricing. Prior to separation, it was identified by our former parent in performing its investigation of anti-corruption activities that certain of these agents may have engaged in activities that were in violation of anti-corruption laws at that time and the terms of their agent agreements with us. Accordingly, we ceased the receipt of services from and payment of fees to these agents. Fees for these agents are included in the total estimated cost for these projects at their completion. In connection with actions taken by U.S. Government authorities, we have removed certain unpaid agent fees from the total estimated costs in the period that we obtained sufficient evidence to conclude such agents violated the terms of their contracts with us. In the first quarter of 2011, we reduced project cost estimates for the remaining unpaid agent fees on the Bonny Island project which resulted in an increase of $4 million to operating income in our condensed consolidated statements of income.

Barracuda-Caratinga Project Arbitration

In June 2000, we entered into a contract with Barracuda & Caratinga Leasing Company B.V., the project owner, to develop the Barracuda and Caratinga crude oilfields, which are located off the coast of Brazil. Petrobras is a contractual representative that controls the project owner. In November 2007, we executed a settlement agreement with the project owner to settle all outstanding project issues except for the bolts arbitration discussed below.

At Petrobras' direction, we replaced certain bolts located on the subsea flowlines that failed through mid-November 2005, and we understand that additional bolts failed thereafter, which were replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. In March 2006, Petrobras notified us they submitted this matter to arbitration claiming $220 million plus interest for the cost of monitoring and replacing the defective stud bolts and, in addition, all of the costs and expenses of the arbitration including the cost of attorneys' fees. The arbitration is being conducted in New York under the guidelines of the United Nations Commission on International Trade Law ("UNCITRAL"). Petrobras contends that all of the bolts installed on the project are defective and must be replaced.

In 2009, we received an unfavorable ruling from the arbitration panel on the legal and factual issues as the panel decided the original design specification for the bolts originated with KBR and its subcontractors. The ruling concluded that KBR's express warranties in the contract regarding the fitness for use of the design specifications for the bolts took precedence over any implied warranties provided by the project owner. Our potential exposure includes the costs of the bolts replaced to date by Petrobras, any incremental monitoring costs incurred by Petrobras and damages for any other bolts that are subsequently found to be defective. We believe that it is probable that we have incurred some liability in connection with the replacement of bolts that have failed during the contract warranty period which expired June 30, 2006. In May 2010, the arbitration tribunal heard arguments from both parties regarding various damage scenarios and estimates of the amount of KBR's overall liability in this matter. The final arbitration arguments were made in August of 2010. Based on the damage estimates presented at this hearing, we estimate our minimum exposure, excluding interest, to be approximately $12 million representing our estimate for replacement of bolts that failed during the warranty period and were not replaced. As of March 31, 2011 and December 31, 2010, we have recorded a liability of $12 million to Petrobras for the failed bolts. We also have recorded an indemnification receivable from Halliburton of $12 million pursuant to the indemnification under the Master Separation Agreement. The amount of any remaining liability will be dependent upon the legal and factual issues to be determined by the arbitration tribunal in the final arbitration hearings. For the remaining bolts at dispute, we cannot determine that we have liability nor determine the amount of any such liability and no additional amounts have been accrued.

Any liability incurred by us in connection with the replacement of bolts that have failed to date or related to the remaining bolts at dispute in the bolt arbitration is covered by an indemnity from our former parent Halliburton. Under the MSA, Halliburton has agreed to indemnify us and any of our greater than 50%-owned subsidiaries as of November 2006, for all out-of-pocket cash costs and expenses (except for ongoing legal costs), or cash settlements or cash arbitration awards in lieu thereof, we may incur after the effective date of the master separation agreement as a result of the replacement of the subsea flowline bolts installed in connection with the Barracuda-Caratinga project. As of March 31, 2011, we are not aware of any uncertainties related to the indemnity from Halliburton or any material limitations on our ability to recover amounts due to us for matters covered by the indemnity from Halliburton. We do not believe any outcome of this matter will have a material adverse impact to our operating results or financial position.

Environmental

We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include, among others: the Comprehensive Environmental Response, Compensation, and Liability Act; the Resources Conservation and Recovery Act; the Clean Air Act; the Federal Water Pollution Control Act; and the Toxic Substances Control Act. In addition to federal and state laws and regulations, other countries where we do business often have numerous environmental regulatory requirements by which we must abide in the normal course of our operations. These requirements apply to our business segments where we perform construction and industrial maintenance services or operate and maintain facilities.

We continue to monitor site conditions and until further information is available, we are only able to estimate a possible range of remediation costs. These locations were primarily utilized for manufacturing or fabrication work and are no longer in operation. The use of these facilities created various environmental issues including deposits of metals, volatile and semi-volatile compounds, and hydrocarbons impacting surface and subsurface soils and groundwater. The range of remediation costs could change depending on our ongoing site analysis and the timing and techniques used to implement remediation activities. We do not expect costs related to environmental matters will have a material adverse effect on our condensed consolidated financial position or results of operations. Based on the information presently available to us, we have accrued approximately $7 million for the assessment and remediation costs associated with all environmental matters, which represents the low end of the range of possible costs that could be as much as $13 million.

We have been named as a potentially responsible party ("PRP") in various clean-up actions taken by federal and state agencies in the U.S. Based on the early stages of these actions, we are unable to determine whether we will ultimately be deemed responsible for any costs associated with these actions and accordingly, no amounts have been accrued for potential liabilities.

Letters of credit

In connection with certain projects, we are required to provide letters of credit or surety bonds to our customers. Letters of credit are provided to customers in the ordinary course of business to guarantee advance payments from certain customers, support future joint venture funding commitments and to provide performance and completion guarantees on engineering and construction contracts. We have $1.9 billion in committed and uncommitted lines of credit to support letters of credit and as of March 31, 2011, we had utilized $600 million of our credit capacity for letters of credit, including $36 million in letters of credit issued and outstanding under various Halliburton facilities that are irrevocably and unconditionally guaranteed by our former parent. We expect to cancel the Halliburton guaranteed letters of credit and surety bonds before or as we complete the underlying projects. The $600 million in letters of credit outstanding on KBR lines of credit was comprised of $268 million issued under our Revolving Credit Facility and $332 million issued under uncommitted bank lines as of March 31, 2011. Surety bonds are also posted under the terms of certain contracts primarily related to state and local government projects to guarantee our performance.

Liquidated damages

Many of our engineering and construction contracts have milestone due dates that must be met or we may be subject to penalties for liquidated damages if claims are asserted and we were responsible for the delays. These generally relate to specified activities that must be met within a project by a set contractual date or achievement of a specified level of output or throughput of a plant we construct. Each contract defines the conditions under which a customer may make a claim for liquidated damages. However, in some instances, liquidated damages are not asserted by the customer, but the potential to do so is used in negotiating claims and closing out the contract.

Based upon our evaluation of our performance and other legal analysis, we have not accrued for possible liquidated damages related to several projects totaling $19 million at March 31, 2011 and $20 million at December 31, 2010 (including amounts related to our share of unconsolidated subsidiaries), that we could incur based upon completing the projects as currently forecasted.

Transactions with Former Parent

As of March 31, 2011, the payable balance to our former parent, Halliburton, was approximately $43 million and was comprised primarily of net amounts owed to Halliburton under the tax sharing agreement for estimated income taxes and indemnification receivables due from Halliburton under the master separation agreement. Our estimate of amounts due to Halliburton under the tax sharing agreement was approximately $45 million at March 31, 2011 and relates to income taxes primarily for the years from 2001 through 2006. Although we believe we have appropriately accrued for these amounts owed to Halliburton, there may be differences of interpretation between us and Halliburton regarding the terms of the tax sharing agreement which may result in changes to the amounts ultimately paid to or received from Halliburton for income taxes at the time of settlement. Under the master separation agreement, Halliburton agreed to indemnify us for certain penalties and fines, including reimbursement of certain legal fees, associated with the FCPA and other corruption allegations as discussed in Note 8. At March 31, 2011, we had recorded an indemnification receivable of $6 million associated with the settlement of the U.K. SFO investigation. The remaining balance as of March 31, 2011 is associated with various other amounts payable to or receivable from Halliburton resulting from our separation in 2007 which we will continue to evaluate prior to final settlement with Halliburton.

Other

We had commitments to provide funds to our privately financed projects of $35 million as of March 31, 2011 and $33 million as of December 31, 2010. Commitments to fund these projects are supported by letters of credit as described above. At March 31, 2011, approximately $17 million of the $35 million in commitments will become due within one year.

Note 9. Income Taxes

Our effective tax rate was approximately 16% for the three months ended March 31, 2011 and 36% for the three months ended 2010. Our effective tax rate for the three months ended March 31, 2011 was lower than the U.S. statutory rate of 35% due to favorable tax rate differentials on foreign earnings and lower tax expense on foreign income from unincorporated joint ventures. In addition, we recognized discrete tax benefits from the execution of tax planning strategies and from the reduction of deferred tax liabilities recorded in prior periods as a result of changes in estimates of the tax liability that will be owed upon the planned liquidation of an Australian unconsolidated joint venture that is in receivership. The tax liability that will result from ultimate liquidation of the Australian joint venture is dependent upon the amount and timing of the debts to be discharged by the administrator. Although we do not control the administrator, we anticipate the joint venture will be liquidated in 2011. As a result, the deferred tax liabilities may be further adjusted based on actions taken by the administrator and timing of the wind-up and liquidation process. Our effective tax rate excluding discrete items was approximately 32% for the first three months of 2011.

Our effective tax rate for the three months ended March, 31, 2010 was higher than the U.S. statutory tax rate of 35% primarily due to discrete items charged to income tax expense related to increased tax accruals due to several items including Subpart F income and true-up of prior year foreign taxes.

Note 10. Shareholders' Equity

The following table summarizes our shareholders' equity activities during the three months ended March 31, 2011:

		KBR Shareholders				
Millions of dollars	Total	Paid-in Capital in Excess of par	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interests
Balance at December 31, 2010	$ 2,204	$ 1,981	$ 1,157	(454)	$ (438)	$ (42)
Stock-based compensation	4	4	—	—	—	—
Common stock issued upon exercise of stock options	3	3	—	—	—	—
Tax benefit increase related to stock-based plans	1	1	—	—	—	—
Dividends declared to shareholders	(8)	—	(8)	—	—	—
Repurchases of common stock	(2)	—	—	(2)	—	—
Issuance of ESPP shares	1			1		
Distributions to noncontrolling interests	(37)	—	—	—	—	(37)
Comprehensive income:						
Net income	117	—	105	—	—	12
Other comprehensive income, net of tax (provision):						
Net cumulative translation adjustment	4	—	—	—	4	—
Pension liability adjustment, net of tax	5	—	—	—	5	—
Net unrealized gains (losses) on derivatives	(3)	—	—	—	(3)	—
Total	123					
Balance at March 31, 2011	$2,289	$1,989	$ 1,254	$ (455)	$ (432)	$ (67)

The following table summarizes our shareholders' equity activities during the three months ended March 31, 2010:

		KBR Shareholders				
Millions of dollars	Total	Paid-in Capital in Excess of par	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interests
Balance at December 31, 2009	$2,296	$ 2,103	$ 854	(225)	$ (444)	$ 8
Stock-based compensation	4	4	—	—	—	—
Repurchases of common stock	(1)	—	—	(1)	—	—
Issuance of ESPP shares	2			2		
Distributions to noncontrolling interests	(7)	—	—	—	—	(7)
Consolidation of Fasttrax Limited	(7)	—	—	—	—	(7)
Comprehensive income:						
Net income	59	—	46	—	—	13
Other comprehensive income, net of tax (provision):						
Net cumulative translation adjustment	2	—	—	—	3	(1)
Pension liability adjustment, net of tax	3	—	—	—	2	1
Net unrealized gains (losses) on derivatives	3	—	—	—	3	—
Total	67					
Balance at March 31, 2010	$ 2,354	$2,107	$ 900	$ (224)	$ (436)	$ 7

Accumulated other comprehensive loss consisted of the following balances:

Millions of dollars	March 31, 2011	December 31, 2010
Cumulative translation adjustments	$ (48)	$ (52)
Pension liability adjustments	(377)	(382)
Unrealized losses on derivatives	(7)	(4)
Total accumulated other comprehensive loss	$ (432)	$ (438)

Note 11. Fair Value Measurements

The financial assets and liabilities measured at fair value on a recurring basis at March 31, 2011 are included below:

		Fair Value Measurements at Reporting Date Using		
Millions of dollars	Total Fair Value at Reporting Date	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities	$ 16	$ 13	$ 3	$ —
Derivative assets	$ 3	$ —	$ 3	$ —
Derivative liabilities	$ 7	$ —	$ 7	$ —

Derivative instruments. Currency derivative instruments are carried on the condensed consolidated balance sheet at fair value and are primarily based upon market observable inputs and significant other observable inputs. We manage our currency exposures through the use of foreign currency derivative instruments denominated in our major currencies, which are generally the currencies of the countries for which we do the majority of our international business. We utilize derivative instruments to manage the foreign currency exposures related to specific assets and liabilities that are denominated in foreign currencies, and to manage forecasted cash flows denominated in foreign currencies generally related to long-term engineering and construction projects. The purpose of our foreign currency risk management activities is to protect us from the risk that the eventual dollar cash flow resulting from the sale and purchase of products and services in foreign currencies will be adversely affected by changes in exchange rates.

Marketable securities. We use quoted market prices and other observable inputs to determine the fair value of our marketable securities. These financial instruments primarily consist of mutual funds, exchange-traded fixed income securities and money market accounts.

Note 12. Equity Method Investments and Variable Interest Entities

Equity Method Investments

The following is a description of our significant investments accounted for on the equity method of accounting that are not variable interest entities. We conduct some of our operations through joint ventures which are in partnership, corporate, undivided interest and other business forms and are principally accounted for using the equity method of accounting.

Brown & Root Condor Spa ("BRC"). BRC is a joint venture in which we owned 49% interest. During the third quarter of 2007, we sold our 49% interest and other rights in BRC to Sonatrach for approximately $24 million resulting in a pre-tax gain of approximately $18 million which was included in "Equity in earnings (losses) of unconsolidated affiliates" on the condensed consolidated statements of income. As of March 31, 2011, we have not collected the remaining $18 million due from Sonatrach for the sale of our interest in BRC, which is included in "Accounts receivable" on the condensed consolidated balance sheets. In the fourth quarter of 2008, we filed for arbitration in an attempt to force collection. A final arbitration hearing occurred in January 2011 for which we expect a decision in mid-2011. We believe the amount owed to us is probable of recovery.

Variable Interest Entities

The majority of our joint ventures are variable interest entities. We account for variable interest entities ("VIEs") in accordance with FASB ASC 810. FASB ASC 810 requires the consolidation of VIEs in which a company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive the benefits from the VIE that could potentially be significant to the VIE. If a reporting enterprise meets these conditions then it has a controlling financial interest and is the primary beneficiary of the VIE.

We assess all newly created entities and those with which we become involved to determine whether such entities are VIEs and, if so, whether or not we are their primary beneficiary. Most of the entities we assess are incorporated or unincorporated joint ventures formed by us and our partner(s) for the purpose of executing a project or program for a customer, such as a governmental agency or a commercial enterprise, and are generally dissolved upon completion of the project or program. Many of our long-term energy-related construction projects in our Hydrocarbons business group are executed through such joint ventures. Typically, these joint ventures are funded by advances from the project owner, and accordingly, require little or no equity investment by the joint venture partners but may require subordinated financial support from the joint venture partners such as letters of credit, performance and financial guarantees or obligations to fund losses incurred by the joint venture. Other joint ventures, such as privately financed initiatives in our Ventures business unit, generally require the partners to invest equity and take an ownership position in an entity that manages and operates an asset post construction.

As required by ASC 810-10, we perform a qualitative assessment to determine whether we are the primary beneficiary once an entity is identified as a VIE. Thereafter, we continue to re-evaluate whether we are the primary beneficiary of the VIE in accordance with ASC 810-10. A qualitative assessment begins with an understanding of the nature of the risks in the entity as well as the nature of the entity's activities including terms of the contracts entered into by the entity, ownership interests issued by the entity and how they were marketed, and the parties involved in the design of the entity. We then identify all of the variable interests held by parties involved with the VIE including, among other things, equity investments, subordinated debt financing, letters of credit, and financial and performance guarantees, and significant, contracted service providers. Once we identify the variable interests, we determine those activities which are most significant to the economic performance of the entity and which variable interest holder has the power to direct those activities. Though infrequent, some of our assessments reveal no primary beneficiary because the power to direct the most significant activities that impact the economic performance is held equally by two or more variable interest holders who are required to provide their consent prior to the execution of their decisions. Most of the VIEs with which we are involved have relatively few variable interests and are primarily related to our equity investment, significant service contracts, and other subordinated financial support.

Unconsolidated VIEs

The following is a summary of the significant variable interest entities in which we have a significant variable interest, but we are not the primary beneficiary:

	As of March 31, 2011		
Unconsolidated VIEs	**Total assets**	**Total liabilities**	**Maximum exposure to loss**
(in millions, except for percentages)			
U.K. Road projects	$1,538	$1,568	$ 31
Fermoy Road project	$ 254	$ 277	$ 2
Allenby & Connaught project	$ 3,107	$ 3,073	$ 68
EBIC Ammonia project	$ 639	$ 397	$ 40

	As of December 31, 2010	
Unconsolidated VIEs	**Total assets**	**Total liabilities**
(in millions, except for percentages)		
U.K. Road projects	$ 1,506	$ 1,531
Fermoy Road project	$ 240	$ 269
Allenby & Connaught project	$ 2,913	$ 2,885
EBIC Ammonia project	$ 604	$ 388

U.K. Road projects. We are involved in four privately financed projects, executed through joint ventures, to design, build, operate, and maintain roadways for certain government agencies in the United Kingdom. We have a 25% ownership interest in each of these joint ventures and account for them using the equity method of accounting. The joint ventures have obtained financing through third parties that is nonrecourse to the joint venture partners. These joint ventures are variable interest entities; however, we are not the primary beneficiary of these joint ventures. Our maximum exposure to loss represents our equity investments in these ventures.

Fermoy Road project. We participate in a privately financed project executed through certain joint ventures formed to design, build, operate, and maintain a toll road in southern Ireland. The joint ventures were funded through debt and were formed with minimal equity. These joint ventures are variable interest entities; however, we are not the primary beneficiary of the joint ventures. We have up to a 25% ownership interest in the project's joint ventures, and we are accounting for these interests using the equity method of accounting.

Allenby & Connaught project. In April 2006, Aspire Defence, a joint venture between us, Carillion Plc. and two financial investors, was awarded a privately financed project contract, the Allenby & Connaught project, by the MoD to upgrade and provide a range of services to the British Army's garrisons at Aldershot and around Salisbury Plain in the United Kingdom. In addition to a package of ongoing services to be delivered over 35 years, the project includes a nine-year construction program to improve soldiers' single living, technical and administrative accommodations, along with leisure and recreational facilities. Aspire Defence manages the existing properties and is responsible for design, refurbishment, construction and integration of new and modernized facilities. We indirectly own a 45% interest in Aspire Defence, the project company that is the holder of the 35-year concession contract. In addition, we own a 50% interest in each of two joint ventures that provide the construction and the related support services to Aspire Defence. As of March 31, 2011, our performance through the construction phase is supported by $72 million in letters of credit and approximately $16 million in surety bonds. Furthermore, our financial and performance guarantees are joint and several, subject to certain limitations, with our joint venture partners. The project is funded through equity and subordinated debt provided by the project sponsors and the issuance of publicly held senior bonds which are nonrecourse to us. The entities we hold an interest in are variable interest entities; however, we are not the primary beneficiary of these entities. We account for our interests in each of the entities using the equity method of accounting. Our maximum exposure to construction and operating joint venture losses is limited to the funding of any future losses incurred by those entities under their respective contracts with the project company. As of March 31, 2011, our assets and liabilities associated with our investment in this project, within our consolidated balance sheet, were $35 million and $2 million, respectively. The $66 million difference between our recorded liabilities and aggregate maximum exposure to loss was primarily related to our equity investments and $35 million remaining commitment to fund subordinated debt to the project in the future.

EBIC Ammonia project. We have an investment in a development corporation that has an indirect interest in the Egypt Basic Industries Corporation ("EBIC") ammonia plant project located in Egypt. We performed the engineering, procurement and construction ("EPC") work for the project and continue to provide operations and maintenance services for the facility. We own 65% of this development corporation and consolidate it for financial reporting purposes. The development corporation owns a 25% ownership interest in a company that consolidates the ammonia plant which is considered a variable interest entity. The development corporation accounts for its investment in the company using the equity method of accounting. The variable interest entity is funded through debt and equity. Indebtedness of EBIC under its debt agreement is non-recourse to us. We are not the primary beneficiary of the variable interest entity. As of March 31, 2011, our assets and liabilities associated with our investment in this project, within our consolidated balance sheet, were $60 million and $9 million, respectively. The $31 million difference between our recorded liabilities and aggregate maximum exposure to loss was related to our investment balance and other receivables in the project as of March 31, 2011.

Consolidated VIEs

The following is a summary of the significant VIEs where we are the primary beneficiary:

	As of March 31, 2011	
Consolidated VIEs	**Total assets**	**Total Liabilities**
(in millions, except for percentages)		
Fasttrax Limited project	$ 113	$ 119
Escravos Gas-to-Liquids project	$ 400	$ 466
Pearl GTL project	$ 177	$ 172
Gorgon LNG project	$ 418	$ 477

	As of December 31, 2010	
Consolidated VIEs	**Total assets**	**Total liabilities**
(in millions, except for percentages)		
Fasttrax Limited project	$ 106	$ 112
Escravos Gas-to-Liquids project	$ 356	$ 423
Pearl GTL project	$ 174	$ 167
Gorgon LNG project	$ 347	$ 372

Fasttrax Limited project. In December 2001, the Fasttrax Joint Venture (the "JV") was created to provide to the United Kingdom Ministry of Defense ("MOD") a fleet of new heavy equipment transporters ("HETs") capable of carrying a Challenger II tank. The JV owns, operates and maintains the HET fleet and provides heavy equipment transportation services to the British Army. The JV's entity structure includes a parent entity and its 100%-owned subsidiary, Fasttrax Ltd (the "SPV"). KBR and its partner each own 50% of the parent entity.

The JV's purchase of the assets was funded through the issuance of several series guaranteed secured bonds. The bonds are guaranteed by Ambac Assurance U.K. Ltd under a policy that guarantees the schedule of principle and interest payments to the bond trustee in the event of non-payment by Fasttrax. The total amount of non-recourse project-finance debt of a VIE consolidated by KBR at March 31, 2011, is summarized in the following table and are also reflected on the face of our condensed consolidated balance sheet. Assets collateralizing the JV's senior bonds include cash and equivalents of $26 million and property, plant, and equipment of approximately $81 million, net of accumulated depreciation of $42 million as of March 31, 2011.

Consolidated amount of non-recourse project-finance debt of a VIE

Millions of Dollars	March 31, 2011
Current non-recourse project-finance debt of a VIE consolidated by KBR	$ 9
Noncurrent non-recourse project-finance debt of a VIE consolidated by KBR	$ 97
Total non-recourse project-finance debt of a VIE consolidated by KBR	$ 106

Escravos Gas-to-Liquids ("GTL") project. During 2005, we formed a joint venture to engineer and construct a gas monetization facility. We own 50% equity interest and determined that we are the primary beneficiary of the joint venture which is consolidated for financial reporting purposes. There are no consolidated assets that collateralize the joint venture's obligations. However, at March 31, 2011 and December 31, 2010, the joint venture had approximately $131 million and $84 million of cash, respectively, which mainly relate to advanced billings in connection with the joint venture's obligations under the EPC contract.

Pearl GTL project. In July 2006, we were awarded, through a 50%-owned joint venture, a contract with Qatar Shell GTL Limited to provide project management and cost-reimbursable engineering, procurement and construction management services for the Pearl GTL project in Ras Laffan, Qatar. The project, which is expected to be completed in 2011, consists of gas production facilities and a GTL plant. The joint venture is considered a VIE and we determined that we are the primary beneficiary of the joint venture which is consolidated for financial reporting purposes.

Gorgon LNG project. We have a 30% ownership in an Australian joint venture which was awarded a contract by Chevron for cost-reimbursable FEED and EPCM services to construct a LNG plant. The joint venture is considered a VIE and we determined that we are the primary beneficiary of the joint venture which is consolidated for financial reporting purposes.

Note 13. Retirement Plans

The components of net periodic benefit cost related to pension benefits for the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,			
	2011		2010	
Millions of dollars	United States	International	United States	International
Components of net periodic benefit cost:				
Interest cost	$ 1	$ 21	$ 1	$ 22
Expected return on plan assets	(1)	(24)	(1)	(23)
Recognized actuarial loss	—	5	—	5
Net periodic benefit cost	$—	$ 2	$—	$ 4

For the three months ended March 31, 2011, we contributed approximately $45 million of the $63 million we currently expect to contribute in 2011 to our international plans, and less than $1 million of the $5 million we currently expect to contribute to our domestic plans in 2011.

Note 14. Recent Adopted Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-28, Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU reflects the decision reached in EITF Issue No. 10-A. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this accounting standard update did not have a material impact on our financial position, results of operations, cash flows or disclosures.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity, as defined by ASC 805 Business Combinations, that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this accounting standard update will apply to future business combinations and is not expected to have a material impact on our financial position, results of operations, cash flows and disclosures.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. ASU 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor’s multiple-deliverable revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this accounting standard update did not have a material impact on our financial position, results of operations, cash flows and disclosures.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of management's discussion and analysis ("MD&A") is to increase the understanding of the reasons for material changes in our financial condition since the most recent fiscal year-end and results of operations during the current fiscal period as compared to the corresponding period of the preceding fiscal year. The MD&A should be read in conjunction with the condensed consolidated financial statements and accompanying notes and our 2010 Annual Report on Form 10-K.

Business Environment and Results of Operations

Business Environment

Hydrocarbon Markets

We provide a full range of engineering, procurement and construction services for large and complex upstream and downstream projects, including LNG and GTL facilities, onshore and offshore oil and gas production facilities, refining and other projects. We serve customers in the gas monetization, oil and gas, petrochemical, refining and chemical markets throughout the world. Our projects are generally long term in nature and are impacted by factors including market conditions, financing arrangements, governmental approvals and environmental matters. Demand for our services depends primarily on our customers' capital expenditures in our construction market sectors.

We have benefited in recent years from increased capital expenditures from our petroleum and petrochemical customers driven by historically high crude oil and natural gas prices and general global economic expansion that occurred prior to mid-2008. We have indications that the hydrocarbons market in most international regions has partially recovered from the worldwide economic recession and financial market condition. We continue to see long term growth in environmentally and economically driven energy projects and for related licensed process technologies for offshore gas production, LNG, biofuels, motor fuels, chemicals and fertilizers. Feasibility studies and front-end engineering and design projects remain steady reflecting our clients' intentions to invest in capital intensive energy projects, albeit releasing and proceeding with projects in phases and conducting increased levels of economic analysis. For construction and maintenance in the United States, we see an improving market with a return of larger projects driven by low natural gas prices, improved refining utilization and increasing energy demands.

Infrastructure, Government and Power Markets ("IGP")

A significant portion of our IGP business segment's current activities supports the United States' and the United Kingdom's government operations in Iraq, Afghanistan and in other parts of the Middle East region. These operations represented one of the largest military deployments since World War II, which has caused a parallel increase in government spending. The logistics support services that KBR provides the U.S. military are delivered under our LogCAP III, LogCAP IV and other contracts which are competitively bid. KBR is the only company providing services under the LogCAP III contract. The U.S. government continues to transition work from LogCAP III to LogCAP IV, which is a multiple award contract where three contractors, including KBR, can each bid and potentially win specific task orders. As troop deployments shift within the Middle East region, and as additional work is awarded under LogCAP IV, we have seen a decline in work under LogCAP III and we expect this decline will continue through 2011 as U.S. troops exit Iraq. We continue to expect the U.K. military will remain engaged in the region, although their presence has shifted from Iraq to Afghanistan.

We operate in diverse civil infrastructure markets, including transportation, water and waste treatment and facilities maintenance. In addition to U.S. state, local and federal agencies, we provide these services to governments around the world including the U.K., Australia and the Middle East. We also provide related services to the global mining industry. There has been a general trend of historic under-investment in infrastructure, particularly related to the quality of water, wastewater, roads and transit, airports, and educational facilities which has historically declined while demand for expanded and improved infrastructure has historically outpaced funding. We have seen increased activity related to these types of projects, however, the economic recession has caused markets to remain flat in America and the U.K., which has resulted in delays or slow start-ups to major projects.

In the industrial sector, we operate in a number of markets, including forest products, advanced manufacturing, minerals and metals and consumer products, both domestically and internationally. Forest products, advanced manufacturing and consumer products are experiencing modest market improvements while the minerals and metals markets are showing strong growth as a result of global demand for commodities. In the power sector, we serve regulated utilities, power cooperatives, municipalities and various non-regulated providers, primarily in the U.S. and U.K. markets. The power sector continues to be driven by long-term economic and demographic trends and changes in environmental regulations. Activity in the power sector are currently concentrated in emissions control, repowering, renewable power and new gas-fired power generation.

We provide a wide range of construction and maintenance services to a variety of industries in the U.S. and Canada, including forest products, power, commercial and institutional buildings, general industrial and manufacturing. We continue to see an increase in bid requests and feasibility estimates from our clients and expect a number of our markets to strengthen throughout 2011 and beyond.

For a more detailed discussion of the results of operations for each of our business groups and business units, corporate general and administrative expense, income taxes and other items, see "Results of Operations" below.

Award Fees

In accordance with the provisions of the LogCAP III contract, we recognize revenue on our services rendered on a task order basis based on either a cost-plus-fixed-fee or cost-plus-base-fee and award fee arrangement. Both fees are determined as a percentage rate applied to a negotiated estimate of the total costs for each task order. For task orders under an award fee arrangement, our customer is contractually obligated to periodically convene Award-Fee Boards, which are comprised of individuals who have been designated to assist the Award Fee Determining Official ("AFDO") in making award fee determinations. The amounts of award fees are determined at the sole discretion of the AFDO.

During the first quarter of 2010, we determined that we could no longer reliably estimate fees to be awarded by the AFDO and, accordingly, adjusted our accrual rate to 0%. Until such time as we are able to resume making reliable fee estimates on the LogCAP III contract, we will recognize award fees only when awarded. No award fees were awarded to us in the first quarter of 2010. During the first quarter of 2011, we were awarded and recognized revenue for award fees of $16 million representing approximately 53% of the available award fee pool for the periods of performance from March 2010 through August 2010 on task orders in Iraq. We were awarded ratings of "very good" on these task orders.

In August of 2010, we executed a contract modification to the LogCAP III contract on the base life support task order in Iraq that resulted in an increase to our base fee on costs incurred and an increase in the maximum award fee on negotiated costs for the period of performance from September 2010 through February 2011. We expect to receive award fees for this period of performance during the third quarter of 2011. During the first quarter of 2011, we finalized negotiations with our customer and converted the task order from cost-plus-base-fee and award fee to cost-plus-fixed-fee for the period of performance beginning in March 2011. We recognize revenues for the fixed-fee component on the basis of proportionate performance as services are performed.

Results of Operations

We analyze the financial results for each of our four segments including the related business units within Hydrocarbons and IGP. The business segments presented are consistent with our reportable segments discussed in Note 5 to our consolidated financial statements. While certain of the business units and product service lines presented below do not meet the criteria for reportable segments in accordance with FASB ASC 280 – Segment Reporting, we believe this supplemental information is relevant and meaningful to our investors.

For purposes of reviewing the results of operations, "business unit income" is calculated as revenue less cost of services managed and reported by the business unit and are directly attributable to the business unit. Business unit income excludes corporate, general, and administrative expenses and other non-operating income and expense items.

Three months ended March 31, 2011 compared to three months ended March 31, 2010

Revenue by Business Unit

Millions of dollars	Three Months Ended March 31, 2011	2010	Dollar Change	Percentage Change
Revenue: (1)				
Hydrocarbons:				
Gas Monetization	$ 746	$ 675	$ 71	11%
Oil & Gas	121	84	37	44%
Downstream	136	133	3	2%
Technology	44	30	14	47%
Total Hydrocarbons	1,047	922	125	14%
Infrastructure, Government and Power ("IGP"):				
North America Government and Defense	605	1,010	(405)	(40)%
International Government and Defence	69	94	(25)	(27)%
Infrastructure and Minerals	120	73	47	64%
Power and Industrial	61	97	(36)	(37)%
Total IGP	855	1,274	(419)	(33)%
Services	397	415	(18)	(4)%
Ventures	17	15	2	13%
Other	5	5	—	—
Total revenue	$2,321	$2,631	$ (310)	(12)%

(1) Our revenue includes both equity in the earnings of unconsolidated affiliates and revenue from the sales of services into the joint ventures. We often participate on larger projects as a joint venture partner and also provide services to the venture as a subcontractor. The amount included in our revenue represents our share of total project revenue, including equity in the earnings (loss) from joint ventures and revenue from services provided to joint ventures.

Income (loss) by Business Unit

Millions of dollars	Three Months Ended March 31, 2011	2010	Dollar Change	Percentage Change
Business Unit Income (loss):				
Hydrocarbons:				
Gas Monetization	$ 64	$ 53	$ 11	21%
Oil & Gas	24	16	8	50%
Downstream	19	22	(3)	(14)%
Technology	18	12	6	50%
Total job income	125	103	22	21%
Gain (loss) on sales of assets	1	—	1	—
Divisional overhead	(27)	(27)	—	—
Total Hydrocarbons	99	76	23	30%
Infrastructure, Government and Power ("IGP"):				
North America Government and Defense	55	36	19	53%
International Government and Defence	17	18	(1)	(6)%
Infrastructure and Minerals	29	18	11	61%
Power and Industrial	6	14	(8)	(57)%
Total job income	107	86	21	24%
Divisional overhead	(46)	(40)	(6)	(15)%
Total IGP	61	46	15	33%
Services:				
Job income	32	37	(5)	(14)%
Divisional overhead	(19)	(16)	(3)	(19)%
Total Services	13	21	(8)	(38)%
Ventures:				
Job income	11	9	2	22%
Divisional overhead	(1)	(1)	—	—
Total Ventures	10	8	2	25%
Other:				
Job income	4	2	2	100%
Divisional overhead	(2)	(1)	(1)	(100)%
Total Other	2	1	1	100%
Total business unit income	$185	$152	$ 33	22%
Unallocated amounts:				
Labor costs absorption [1]	3	(4)	7	175%
Corporate general and administrative	(44)	(49)	5	10%
Total operating income	$ 144	$ 99	$ 45	45%

(1) Labor cost absorption represents costs incurred by our central labor and resource groups (above)/under the amounts charged to the operating business units.

Hydrocarbons Business Segment

Gas Monetization. Revenue from Gas Monetization increased in the first quarter of 2011 by $71 million compared to 2010 primarily due to increased activity from the Gorgon LNG and Escravos GTL projects. Revenue from these projects increased $73 million in the aggregate compared to the first quarter of 2010 primarily as a result increased progress. Revenue further increased during the quarter by approximately $15 million as a result of the sale of our interest in an unconsolidated joint venture to construct an LNG plant in Indonesia as well as the release of commercial agent fee accruals associated with a completed LNG project in Nigeria. Partially offsetting these increases in revenue was a decline in revenue of approximately $28 million due to lower procurement and subcontractor activity on the Skikda LNG project.

Gas Monetization job income increased approximately $11 million in the first quarter of 2011 compared to the same period of the prior year. Job income increased $23 million as a combined result of increased activity on the EPCM portion of the Gorgon LNG project, higher incentive fee estimate related to the Pearl GTL project, sale of our interest in an unconsolidated joint venture and the reversal of commercial agent fees on a completed LNG project. Partially offsetting these increases in job income were decreases of approximately $12 million due to lower activity on the Skikda LNG project.

Oil & Gas. Revenue in Oil & Gas increased by $37 million and job income increased by $8 million in the first quarter of 2011 over the same period of the prior year. The increase in revenue and job income is primarily due to the start of several new technical service projects, higher progress and additional scopes of work on existing projects.

Downstream. Downstream revenue in the first quarter of 2011 increased by $3 million compared to the same period in 2010 primarily due to increased activity on newly awarded and other existing projects in the Americas region and higher progress on refining and petrochemical projects in the Middle East which contributed approximately $30 million in the aggregate to the increase in revenue. These increases in revenue were partially offset by lower revenues of $25 million on projects in the Middle East which were either completed or nearing completion as of the first quarter of 2011. Downstream job income in the first quarter of 2011 decreased approximately $3 million as compared to the same period of the prior year primarily driven by lower job income on projects in the Middle East that were either completed or nearing completion as of the first quarter of 2011.

Technology. Technology revenue and job income in the first quarter of 2011 increased $14 million and $6 million over the same period of the prior year, respectively, primarily due to the progress achieved on a new grassroots ammonia, urea and granulation complex project in Brazil, two new ammonia plant projects in Argentina and China as well as a new petrochemical plant in China which collectively contributed approximately $25 million to the increase in Technology revenue and approximately $10 million to the increase in Technology job income. Partially offsetting these increases were decreases in revenue and job income associated with the completion of engineering services on several projects located in Turkmenistan, Korea, and Angola.

Infrastructure, Government and Power ("IGP") Business Segment

North America Government and Defense ("NAGD). Revenue from NAGD decreased approximately $405 million in the first quarter of 2011 over the same period of the prior year. The decrease in NAGD revenue includes a $538 million decline primarily resulting from an overall reduction in volume for U.S. military support activities mostly in Iraq under our LogCAP III contract due to the continued reductions in staff and personnel on the project as military bases have closed and combat troop levels declined. We expect to continue providing services on certain task orders throughout the year. Although the decreases in revenue on the LogCAP III project have been partially offset by an increase in revenue of $116 million on a task order under the LogCAP IV contract, we expect our overall volume of work to continue to decrease in Iraq beginning in the second half of 2011.

Job income from NAGD increased by approximately $19 million in the first quarter of 2011 over the same period of the prior year primarily due to award fees recognized of $16 million on the LogCAP III contract, which was essentially offset by overall lower volume of activity on our LogCAP III contract as a result of the overall reduction in volume of U.S. military support activities in Iraq and Afghanistan. Also contributing to the increase in job income was increased activity on the LogCAP IV contract, a gain from a change order settlement related to the completed Skopje Embassy project, and lower unallowable costs compared to the first quarter of 2011.

International Government and Defence ("IGD"). Revenue from IGD decreased approximately $25 million and job income decreased $1 million in the first quarter of 2011 compared to the same period of the prior year. The decrease in revenue and job income was primarily related to lower activity on the Temporary Deployable Accommodation project. Partially offsetting this decrease are increases in revenue and job income related to new projects in 2011.

Infrastructure and Minerals ("I&M"). Revenue from I&M increased approximately $47 million in the first quarter of 2011 over the same period of the prior year primarily due to the addition of project revenue from the acquisition of R&S in late 2010, increased activity on various engineering projects and incentives earned on a project in Australia. This increased revenue was partially offset by lower overall activity on several projects that were either completed or scaled down as a result of the certain economic conditions. Job income from I&M increased $11 million in the first quarter of 2011 over the same period of the prior year primarily as a result of a project incentive earned on a transport project and increased R&S activity partially offset by a decline in activity related to the recent flooding in Queensland, Australia and other completed projects.

Power and Industrial ("P&I"). Revenue from P&I decreased approximately $36 million, and job income decreased $8 million in the first quarter of 2011 over the same period in the prior year largely as a result of a declining workload and cost overruns on an environmental project as it approached completion. These decreases were partially offset by change orders and increases in volume on a waste-to-energy refurbishment project in Florida and by increased staffing on a reimbursable power engineering project.

Services Business Segment

Services revenue in the first quarter of 2011 decreased by $18 million as compared to the same period of the prior year. Revenue declined $84 million in our U.S. Construction Group and $48 million in our Canada operations. The primary driver for the declines was the completion of several projects or projects being near completion and the delay of new project awards. These declines were partially offset by an increase in revenue of $91 million from our Building Services group primarily due to increased activity on several hospital projects. Also partially offsetting these declines was a $23 million increase from our Industrial Services group primarily as a result of increased construction maintenance and services under a new multi-site contract throughout the Eastern and Gulf Coast regions of the U.S. and several public municipality projects.

Job income decreased by approximately $5 million in the first quarter of 2011 over the same period of the prior year. The decrease in job income resulted from the decline in U.S. Construction and Canada activity due the completion of several projects or projects being near completion. This decline was partially offset by increased Building group project activity on numerous large hospital projects as well as increased activity on the various construction, maintenance and service projects in the U.S.

Ventures Business Unit

The results of our Ventures operations are primarily generated by investments accounted for under the equity method, except for Fasttrax which was consolidated following the amendments to ASC 810 Consolidations on January 1, 2010. Ventures revenue was $17 million and job income was $11 million in the first quarter of 2011 as compared to revenue of $15 million and job income of $9 million in the first quarter of 2010. The increase in revenue and job income is primarily attributable to increased sales volume and higher ammonia prices related to the EBIC ammonia plant project in Egypt. In addition, the other contributors to Ventures results in the first quarter of 2011 were the U.K. Ministry of Defence projects, including Allenby and Connaught due to the growing number of assets being accepted into service and Fasttrax due to higher service fees and lower overheads costs.

Unallocated amounts

Labor cost absorption. Labor cost absorption income was $3 million in the first quarter of 2011 compared to labor cost absorption expense of $4 million in the first quarter of 2010. Labor cost absorption represents costs incurred by our central labor and resource groups net of the amounts charged to the operating business units. Labor cost absorption income improved in 2011 primarily due to higher chargeability and utilization in several of our engineering offices as well as a significantly higher headcount in the labor resource pool. Labor cost absorption expense in the first quarter of 2010 primarily due to lower chargeability and utilization in several of our engineering offices as well as higher incentive compensation which was partially offset by lower headcount.

General and Administrative expense. General and administrative expense was $44 million in the first quarter of 2011 compared with $49 million for the prior year first quarter. General and administrative expense declined $5 million in 2011 largely due to the delay of certain facility and systems support costs along with lower costs associated with incentive programs. These reductions were partially offset by increases associated with enterprise resource planning implementation efforts.

Services Segment Revenues by Market Sector

The Services business segment provides construction management and maintenance services to clients in a number of markets that are also served by our other business units. Customer focus, attention to highly productive delivery, and a diverse market presence we believe are the keys to our success in delivering construction and maintenance services. Accordingly, the Services business segment focuses on these key success factors. The analysis below is supplementally provided to present the revenue generated by the Services segment based on the markets served, some of which are the same sectors served by our other business segments. The perspective highlights the markets served by our Services segment.

	Three Months Ended March 31, 2011		
(in millions)	Business Unit Revenue	Services Revenue	Total Revenue by Market Sectors
Hydrocarbons business segment:			
Gas Monetization	$ 746	$ —	$ 746
Oil & Gas	121	36	157
Downstream	136	92	228
Technology	44	—	44
Total Hydrocarbons business segment revenue	1,047	128	1,175
Infrastructure, Government and Power ("IGP"):			
North America Government and Defense	605	29	634
International Government and Defence	69	—	69
Infrastructure and Minerals	120	—	120
Power and Industrial	61	240	301
Total IGP business segment revenue	855	269	1,124
Services	397	(397)	—
Other	22	—	22
Total KBR Revenue	$ 2,321	$ —	$ 2,321

	Three Months Ended March 31, 2010		
(in millions)	Business Unit Revenue	Services Revenue	Total Revenue by Market Sectors
Hydrocarbons business group:			
Gas Monetization	$ 675	$ —	$ 675
Oil & Gas	84	89	173
Downstream	133	142	275
Technology	30	—	30
Total Hydrocarbons business segment revenue	922	231	1,153
Infrastructure, Government and Power ("IGP"):			
North America Government and Defense	1,010	10	1,020
International Government and Defence	94	—	94
Infrastructure and Minerals	73	—	73
Power and Industrial	97	174	271
Total IGP business segment revenue	1,274	184	1,458
Services	415	(415)	—
Other	20	—	20
Total KBR Revenue	$ 2,631	$ —	$ 2,631

Non-operating items

Net interest expense was $5 million in the first quarter of 2011 and $4 million in the first quarter of 2010. Interest expense included commitment fees paid under the terms of our credit facility, fees associated with outstanding performance-related and financial-related issued letters of credit, and fees paid to Halliburton for guarantees provided to us for various financial commitments and was approximately $4 million for both the first quarter of 2011 and first quarter of 2010. Additionally, interest expense includes interest on our non-recourse project-finance debt which was approximately $2 million for both the first quarter of 2011 and first quarter of 2010. Interest expense in both quarters was partially offset by interest income earned on invested cash.

Provision for income taxes was $22 million in the first quarter of 2011 and $34 million in the first quarter of 2010. Our effective tax rate was approximately 16% for the three months ended March 31, 2011 and 36% for the three months ended 2010. Our effective tax rate for the three months ended March 31, 2011 was lower than the U.S. statutory rate of 35% due to favorable tax rate differentials on foreign earnings and lower tax expense on foreign income from unincorporated joint ventures. In addition, we recognized discrete tax benefits from the execution of tax planning strategies and from the reduction of deferred tax liabilities recorded in prior periods as a result of changes in estimates of the tax liability that will be owed upon the planned liquidation of an Australian unconsolidated joint venture that is in receivership. The tax liability that will result from ultimate liquidation of the Australian joint venture is dependent upon the amount and timing of the debts to be discharged by the administrator. Although we do not control the administrator, we anticipate the joint venture will be liquidated in 2011. As a result, the deferred tax liabilities may be further adjusted based on actions taken by the administrator and timing of the wind-up and liquidation process. Our effective tax rate excluding discrete items was approximately 32% for the three months ended March 31, 2011.

Our effective tax rate for the three months ended March, 31, 2010 was higher than the U.S. statutory tax rate of 35% primarily due to discrete items charged to income tax expense related to increased tax accruals due to several items including Subpart F income and true-up of prior year foreign taxes.

Backlog

Backlog represents the dollar amount of revenue we expect to realize in the future as a result of performing work on contracts awarded and in progress. We generally include total expected revenue in backlog when a contract is awarded and/or the scope is definitized. For long-term contracts, the amount included in backlog is limited to five years. In many instances, arrangements included in backlog are complex, nonrepetitive in nature, and may fluctuate depending on expected revenue and timing. Where contract duration is indefinite, projects included in backlog are limited to the estimated amount of expected revenue within the following twelve months. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract being agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorized are included in backlog. For projects where we act solely in a project management capacity, we only include our management fee revenue of each project in backlog.

For our projects related to unconsolidated joint ventures, we have included in the table below our percentage ownership of the joint venture’s revenue in backlog. However, because these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our revenue. Our backlog for projects related to unconsolidated joint ventures totaled $1.8 billion at March 31, 2011 and $1.7 billion at December 31, 2010. We also consolidate joint ventures which are majority-owned and controlled or are variable interest entities in which we are the primary beneficiary. Our backlog included in the table below for projects related to consolidated joint ventures with noncontrolling interests includes 100% of the backlog associated with those joint ventures and totaled $4.0 billion at March 31, 2011 and $4.4 billion at December 31, 2010.

Backlog [1]
(in millions)

	March 31, 2011	December 31, 2010
Hydrocarbons:		
Gas Monetization	$ 5,180	$ 5,509
Oil & Gas	503	325
Downstream	470	525
Technology	187	201
Total Hydrocarbons backlog	6,340	6,560
Infrastructure, Government and Power ("IGP"):		
North America Government and Defense	1,026	1,043
International Government and Defence	1,335	1,223
Infrastructure and Minerals	603	446
Power and Industrial	155	177
Total IGP backlog	3,119	2,889
Services	1,725	1,771
Ventures	856	821
Total backlog for continuing operations	$12,040	$ 12,041

(1) All backlog is attributable to firm orders as of March 31, 2011 and December 31, 2010. Backlog attributable to unfunded government orders was $165 million at March 31, 2011 and $137 million as of December 31, 2010.

We estimate that as of March 31, 2011, 59% of our backlog will be executed within one year. As of March 31, 2011, 20% of our backlog was attributable to fixed-price contracts and 80% was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the components as either fixed-price or cost-reimbursable according to the composition of the contract except for smaller contracts where we characterize the entire contract based on the predominant component.

Hydrocarbons backlog declined approximately $220 million primarily because of a decline in Gas Monetization backlog of approximately $329 million due to work performed on the Gorgon LNG, Skikda LNG, Pearl GTL and other projects partially offset by new awards of $50 million in the first quarter of 2011. New awards of $253 million in our Oil & Gas, Downstream and Technology business units were partially offset by $144 million of work performed on existing projects in those business units.

IGP Backlog increased by $230 million as a result of new awards of $340 million primarily in our I&M and IGD business units. This increase in new awards was partially offset by work performed on existing projects of approximately $110 million across all IGP business units.

Services backlog declined $46 million primarily due to work performed of approximately $273 million on various construction projects in the U.S. and Canada partially offset by new awards of approximately $227 million including major awards in our Building Group and Industrial Services product lines.

Liquidity and Capital Resources

Cash and equivalents totaled $788 million at March 31, 2011 and $786 million at December 31, 2010, which included $207 million and $136 million, respectively, of cash held by our joint ventures that we consolidate for accounting purposes. Joint venture cash balances are limited to joint venture activities and are not available for use on other projects, general cash needs or distributions to us without approval of the board of directors of the respective joint ventures and we expect to use the cash to pay project costs.

As of March 31, 2011, we had restricted cash of $15 million related to the amounts held on deposit with certain banks to collateralize standby letters of credit. Of this, $7 million is included in "Other current assets" and $8 million is included in "Other assets" in the accompanying consolidated financial statements.

Revolving Credit Facility ("RCF")

On November 3, 2009, we entered into a $1.1 billion three-year, unsecured, revolving credit agreement (the "Revolving Credit Facility" or "RCF"), with a group of commercial banks. The RCF expires in November 2012 and until then is available for working capital requirements. While there is no sub-limit for letters of credit under this facility, letter of credit fronting commitments were $880 million as of March 31, 2011. Amounts drawn under the RCF bear interest at variable rates based either on the London interbank offered rate ("LIBOR") plus 3%, or a base rate plus 2%, with the base rate being equal to the highest of (i) the reference bank's publicly announced base rate, (ii) the Federal Funds Rate plus 0.5%, (iii) or LIBOR plus 1%. Fees charged on the letters of credit issued under the RCF equal 1.5% per annum ("p.a.") for performance and commercial letters of credit and 3% p.a. for all others. We are also charged an issuance fee of 0.05% for the issuance of letters of credit, and a commitment fee of 0.625% p.a. for any unused portion of the RCF, and a 0.25% p.a. for letter of credit fronting commitments. As of March 31, 2011, there were $268 million in letters of credit issued and outstanding no outstanding borrowings or cash drawings under the RCF.

The RCF includes financial covenants that we maintain a ratio of consolidated debt to consolidated EBITDA of no more than 3.5 to 1 and a consolidated net worth of no less than $2 billion, plus 50% of consolidated net income for each quarter ending after September 30, 2009, plus 100% of any increase in shareholders' equity attributable to the sale of equity securities. At March 31, 2011, we were in compliance with these ratios and other covenants mentioned below.

The RCF contains a number of other covenants restricting, among other things, our ability to incur additional liens and indebtedness, enter into asset sales, and limits the amounts and types of investments we can make. The RCF permits us, among other things, to declare and pay shareholder dividends and engage in equity repurchases not to exceed $400 million in the aggregate during the term of the RCF. It also permits us to incur indebtedness in respect of purchase money obligations, capitalized leases and refinancing or renewals secured by liens upon or in property acquired, constructed or improved in an aggregate principal amount not to exceed $200 million. Our subsidiaries may incur unsecured indebtedness not to exceed $100 million in aggregate outstanding principal amount at any time.

Nonrecourse Project Finance Debt

Fasttrax Limited, a joint venture in which we indirectly own a 50% equity interest with an unrelated partner, was awarded a contract in 2001 with the U.K. MoD to provide a fleet of heavy equipment transporters ("HETs") to the British Army. Under the terms of the arrangement, Fasttrax Limited operates and maintains the HET fleet for a term of 22 years. The purchase of the HETs by the joint venture was financed through a series of bonds secured by the assets of Fasttrax Limited. The bonds are guaranteed by Ambac Assurance UK Ltd under a policy that guarantees the schedule of the principle and interest payments to the bond trustee in the event of non-payment by Fasttrax Limited.

The guaranteed secured bonds were issued in two classes consisting of Class A 3.5% Index Linked Bonds in the amount of £56 million and Class B 5.9% Fixed Rate Bonds in the amount of £16.7 million. The secured bonds are an obligation of Fasttrax Limited and will never be a debt obligation of KBR because they are non-recourse to the joint venture partners. Accordingly, in the event of a default on the term loan, the lenders may only look to the resources of Fasttrax Limited for repayment. Payments on both classes of bonds are due in semi-annual installments over the term of the bonds which end in 2021. Subordinated notes payable to our 50% partner initially bear interest at 11.25% increasing to 16% over the term of the note through 2025. Payments on the subordinated debt are due in semi-annual installments over the term of the note.

Cash Flow Activities

	For the Three Months Ended	
	2011	2010
Cash flows provided by (used in) operating activities	$ 225	$ (5)
Cash flows used in investing activities	(34)	(38)
Cash flows provided by (used in) financing activities	(202)	1
Effect of exchange rate changes on cash	13	(13)
Increase (decrease) in cash and equivalents	$ 2	$ (55)
Cash increase due to consolidation of a variable interest entity	—	22
Net increase (decrease) in cash and equivalents	$ 2	$ (33)

Operating activities. Cash provided by operations totaled $225 million in the first quarter of 2011 and was driven primarily by strong earnings and active management of working capital to support project execution activities including collections of accounts receivable, advanced payments received from customers as well as collections of advances and distributions of earnings from unconsolidated affiliates. We contributed approximately $45 million to our pension funds during the first quarter of 2011 including a one-time contribution of approximately $39 million which we had previously agreed with the trustees of one of our international plans.

Cash used in operations was $5 million in the first quarter of 2010 and was primarily impacted by an increase of approximately $95 million in working capital requirements for our LogCAP III project. These uses of cash were partially offset by a decrease to our working capital investments on other projects.

Investing activities. Cash used in investing activities in the first quarter of 2011 totaled $34 million. Capital expenditures were $26 million and primarily related to increased corporate infrastructure spending and leasehold improvements. Additionally, we also made investments totaling $8 million in an equity method joint venture associated with the lease extension of our corporate headquarters.

Cash used in investing activities for the first three months of 2010 totaled $38 million which included $20 million for the exclusive right to certain technology under a 25-year licensing arrangement. Capital expenditures were $14 million for the first three months of 2010, primarily related to increased corporate infrastructure spending and leasehold improvements. Additionally, we made a $4 million investment in an equity method joint venture associated with our lease extension of our corporate headquarters.

Financing activities. Cash used in financing activities in the first quarter of 2011 totaled $202 million and included $164 million of payments to acquire the noncontrolling interest in MWKL, $37 million related to distributions to owners of noncontrolling interests in several of our consolidated joint ventures, and $8 million related to dividend payments to our shareholders. These payments were partially offset by a return of cash of approximately $5 million used to collateralize standby letters of credit.

Cash provided by financing activities for the first quarter of 2010 totaled $1 million and included the return of approximately $17 million of cash previously used to collateralize standby letters of credit. This was almost entirely offset by distributions of $7 million to owners of noncontrolling interests of several of our consolidated joint ventures, dividend payments to our shareholders of $8 million and payments to reacquire shares of our common stock of $1 million.

Future sources of cash. Future sources of cash include cash flows from operations, including cash advances from our clients, cash derived from working capital management and advances under our RCF.

Future uses of cash. Future uses of cash will primarily relate to working capital requirements, capital expenditures and acquisitions. In addition, we will use cash to fund pension obligations, operating leases, cash dividends, share repurchases and various other obligations as they arise. Our capital expenditures will be focused primarily on information technology, real estate, facilities and equipment.

Off balance sheet arrangements

Letters of credit, surety bonds and bank guarantees. In connection with certain projects, we are required to provide letters of credit or surety bonds to our customers. Letters of credit are provided to customers in the ordinary course of business to guarantee advance payments from certain customers, support future joint venture funding commitments and to provide performance and completion guarantees on engineering and construction contracts. We have approximately $1.9 billion in committed and uncommitted lines of credit to support the issuance of letters of credit and as of March 31, 2011, and we had utilized $600 million of our credit capacity, including $36 million in letters of credit issued and outstanding under various facilities that are irrevocably and unconditionally guaranteed by Halliburton. We expect to cancel the Halliburton guaranteed letters of credit and surety bonds before or as we complete the underlying projects. Surety bonds are also posted under the terms of certain contracts primarily related to state and local government projects to guarantee our performance.

The $600 million in letters of credit outstanding on KBR lines of credit was comprised of $268 million issued under our RCF and $332 million issued under uncommitted bank lines at March 31, 2011. Of the total letters of credit outstanding, $232 million relate to our joint venture operations and $23 million of the letters of credit have terms that could entitle a bank to require additional cash collateralization on demand. Approximately $172 million of the $268 million letters of credit issued under our RCF have expiry dates close to or beyond the maturity date of the facility. Under the terms of the RCF, if the original maturity date of November 2, 2012 is not extended then the issuing banks may require that we provide cash collateral for these extended letters of credit no later than 95 days prior to the original maturity date. As the need arises, future projects will be supported by letters of credit issued under our RCF or other lines of credit arranged on a bilateral basis. We believe we have adequate letter of credit capacity under our existing RCF and bilateral lines of credit to support our operations for the next twelve months.

The current capacity of our Revolving Credit Facility is adequate for us to issue letters of credit necessary to replace all outstanding letters of credit issued under the various Halliburton facilities or those guaranteed by Halliburton and issue letters of credit for projects that we are currently pursuing should they be awarded to us.

Other obligations. As of March 31, 2011, we had commitments to provide $35 million in funding to our privately financed projects including future equity funding for our Allenby and Connaught project. Our commitments to fund our privately financed projects are supported by letters of credit as described above. At March 31, 2011, approximately $17 million of the $35 million in commitments will become due within one year.

We have an obligation to fund estimated losses on our uncompleted contracts which totaled $26 million at March 31, 2011. Approximately $22 million of this amount relates to our Escravos project, the majority of which is expected to be funded during the remainder of 2011.

Other factors affecting liquidity

Government claims. Included in receivables in our balance sheets are unapproved claims for costs incurred under various government contracts totaling $147 million at March 31, 2011 of which $120 million is included in “Account receivable” and $27 million is included in “Unbilled receivables on uncompleted contracts.” Unapproved claims relate to contracts where our costs have exceeded the customer’s funded value of the task order. The $120 million of unapproved claims included in Accounts receivable results primarily from de-obligated funding on certain task orders that were also subject to Form 1’s relating to certain DCAA audit issues discussed above. We believe such disputed costs will be resolved in our favor at which time the customer will be required to obligate funds from appropriations for the year in which resolution occurs. The remaining unapproved claims balance of approximately $27 million primarily represents costs for which incremental funding is pending in the normal course of business. The majority of costs in this category are normally funded within several months after the costs are incurred. The unapproved claims outstanding at March 31, 2011 are considered to be probable of collection and have been previously recognized as revenue.

Liquidated damages. Many of our engineering and construction contracts have milestone due dates that must be met or we may be subject to penalties for liquidated damages if claims are asserted and we were responsible for the delays. These generally relate to specified activities that must be met within a project by a set contractual date or achievement of a specified level of output or throughput of a plant we construct. Each contract defines the conditions under which a customer may make a claim for liquidated damages. However, in many instances, liquidated damages are not asserted by the customer, but the potential to do so is used in negotiating claims and closing out the contract.

Based upon our evaluation of our performance and other legal analysis, we have not accrued for possible liquidated damages related to several projects, totaling $19 million at March 31, 2011 (including amounts related to our share of unconsolidated subsidiaries), that we could incur based upon completing the projects as currently forecasted.

Transactions with Former Parent. As of March 31, 2011, the payable balance to our former parent, Halliburton, was approximately $43 million and was comprised primarily of net amounts owed to Halliburton under the tax sharing agreement for estimated income taxes and indemnification receivables due from Halliburton under the master separation agreement. Our estimate of amounts due to Halliburton under the tax sharing agreement was approximately $45 million at March 31, 2011 and relates to income taxes primarily for the years from 2001 through 2006. Although we believe we have appropriately accrued for these amounts owed to Halliburton, there may be differences of interpretation between us and Halliburton regarding the terms of the tax sharing agreement which may result in changes to the amounts ultimately paid to or received from Halliburton for income taxes at the time of settlement. Under the master separation agreement, Halliburton agreed to indemnify us for certain penalties and fines, including reimbursement of certain legal fees, associated with the FCPA and other corruption allegations as discussed in Note 8. At March 31, 2011, we had recorded an indemnification receivable of $6 million associated with the settlement of the U.K. SFO investigation. The remaining balance as of March 31, 2011 is associated with various other amounts payable to or receivable from Halliburton resulting from our separation in 2007 which we will continue to evaluate prior to final settlement with Halliburton.

Legal Proceedings

Information related to various commitments and contingencies is described in Notes 7 and 8 to the condensed consolidated financial statements.

Environmental Regulation

We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include, among others: the Comprehensive Environmental Response, Compensation, and Liability Act; the Resources Conservation and Recovery Act; the Clean Air Act; the Federal Water Pollution Control Act; and the Toxic Substances Control Act. In addition to federal and state laws and regulations, other countries where we do business often have numerous environmental regulatory requirements by which we must abide in the normal course of our operations. These requirements apply to our business segments where we perform construction and industrial maintenance services or operate and maintain facilities.

We continue to monitor site conditions and until further information is available, we are only able to estimate a possible range of remediation costs. These locations were primarily utilized for manufacturing or fabrication work and are no longer in operation. The use of these facilities created various environmental issues including deposits of metals, volatile and semi-volatile compounds, and hydrocarbons impacting surface and subsurface soils and groundwater. The range of remediation costs could change depending on our ongoing site analysis and the timing and techniques used to implement remediation activities. We do not expect costs related to environmental matters will have a material adverse effect on our condensed consolidated financial position or results of operations. Based on the information presently available to us, we have accrued approximately $7 million for the assessment and remediation costs associated with all environmental matters, which represents the low end of the range of possible costs that could be as much as $13 million. See Note 8 to our consolidated financial statements for more information on environmental matters.

We have been named as a potentially responsible party (“PRP”) in various clean-up actions taken by federal and state agencies in the U.S. Based on the early stages of these actions, we are unable to determine whether we will ultimately be deemed responsible for any costs associated with these actions and accordingly, no amounts have been accrued for potential liabilities.

New Accounting Standards

Information related to new accounting standards is described in Note 14 to the condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial instrument market risk from changes in foreign currency exchange rates and interest rates. We selectively manage these exposures through the use of derivative instruments to mitigate our market risk from these exposures. The objective of our risk management is to protect our cash flows related to sales or purchases of goods or services from market fluctuations in currency rates. Our use of derivative instruments includes the following types of market risk:

- volatility of the currency rates;
- time horizon of the derivative instruments;
- market cycles; and
- the type of derivative instruments used.

We do not use derivative instruments for trading purposes. We do not consider any of these risk management activities to be material.

Item 4. Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information related to various commitments and contingencies is described in Notes 7 and 8 to the condensed consolidated financial statements and in Managements' Discussion and Analysis of Financial Condition and Results of Operations – Legal Proceedings and the information discussed therein is incorporated herein.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K, which is incorporated herein by reference, for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) None.

(c) On June 8, 2010, we initiated a Board of Directors authorized share repurchase program allowing us to maintain, over time, our outstanding shares at approximately 150 million shares. The following is a summary of share repurchases of our common stock settled during the three months ended March 31, 2011.

Purchase Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 3 – 31, 2011				
Repurchase Program [a]	—	$ —	—	—
Employee Transactions [b]	7,686	$30.65	—	—
February 1 – 28, 2011				
Repurchase Program [a]	—	$ —	—	—
Employee Transactions [b]	2,608	$ 34.01	—	—
March 3 – 28, 2011				
Repurchase Program [a]	—	$ —	—	—
Employee Transactions [b]	45,556	$ 33.94	—	—
Total				
Repurchase Program [a]	—	$ —	—	—
Employee Transactions [b]	55,850	$ 33.49	—	—

(a) We may continue to repurchase shares of our outstanding common shares as necessary to maintain, over time, our outstanding shares at approximately 150 million shares.

(b) Reflects shares acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock units.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

	Exhibit Number	Description
	3.1	KBR Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to KBR's registration statement on Form S-1; Registration No. 333-133302)
	3.2	Amended and Restated Bylaws of KBR, Inc. (incorporated by reference to Exhibit 3.1 to KBR's Form 10-Q for the period ended June 30, 2008; File No. 1-33146)
	4.1	Form of specimen KBR common stock certificate (incorporated by reference to Exhibit 4.1 to KBR's registration statement on Form S-1; Registration No. 333-133302)
*	10.1	Form of revised 2011 KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan.
*	10.2	KBR, Inc. Senior Executive Performance Pay Plan Restated January 1, 2011 (File No. 1-33146)
*	10.3	KBR, Inc. Management Performance Pay Plan Restated January 1, 2011 (File No. 1-33146)
*	31.1	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	31.2	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	32.1	Certification by the Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**	32.2	Certification by the Chief Financial Officer Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
***	101.INS	XBRL Instance Document
***	101.SCH	XBRL Taxonomy Extension Schema Document
***	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
***	101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
***	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this Form 10-Q

** Furnished with this Form 10-Q

*** In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KBR, INC.

/s/ Susan K. Carter
Susan K. Carter
Executive Vice President and Chief Financial Officer

/s/ Dennis S. Baldwin
Dennis S. Baldwin
Senior Vice President and Chief Accounting Officer

Date: April 27, 2011

Exhibit 10.1
US/INTERNATIONAL EMPLOYEE

PERFORMANCE AWARD AGREEMENT

Grant Date:_____

Re: Performance Unit Grant

I am pleased to inform you that KBR, Inc. (the "Company") has granted you Performance Units under the Company's 2006 Stock and Incentive Plan (the "Plan") as follows:

1. **Grant of Performance Units**.

The number of Performance Units granted to you as a Performance Award under the Plan is _____. Each Performance Unit shall have a target value of $1.00. The actual value, if any, of a Performance Unit at the end of the Performance Period will be determined based on the level of achievement during the Performance Period of the performance objectives set forth in Exhibit A hereto, which is made a part hereof for all purposes.

2.

(a) **Vesting**. Except as otherwise provided in subparagraphs (b) and (d) below, you will vest in the Performance Units earned (if any) for the Performance Period only if you are an employee of the Company or a Subsidiary on the date such earned Performance Units are paid, as provided in Paragraph 3 below.

(b) **Death, Disability or Retirement**. Unless otherwise provided in an agreement pursuant to Paragraph 13, if you cease to be an employee of the Company or a Subsidiary as a result of (i) your death, (ii) your permanent disability (disability being defined as being physically or mentally incapable of performing either your usual duties as an employee or any other duties as an employee that the Company reasonably makes available and such condition is likely to remain continuously and permanently, as determined by the Company or employing Subsidiary), or (iii) normal retirement on or after reaching age 65, a prorata portion of your Performance Units that become "earned", if any, as provided in Exhibit A, will become vested. The "prorata portion" that becomes vested shall be a fraction, the numerator of which is the number of days in the Performance Period in which you were an employee of the Company or a Subsidiary and the denominator of which is the total number of days in the Performance Period. If your termination for the above reasons is after the end of the Performance Period but before payment of the Performance Units earned, if any, for such Performance Period, you will be fully vested in any such earned Performance Units.

Notwithstanding the foregoing, if the EU Employment Equality Directive (Directive 2000/78/EC) has been implemented in your country of employment or residence or if the Company receives a legal opinion that there has been a legal judgment and/or legal development in your jurisdiction that would likely result in the favorable retirement treatment that applies to Performance Awards under the Plan being deemed unlawful and/or discriminatory, the provision above regarding termination of employment related to normal retirement on or after age sixty-five shall not be applicable to you.

(c) **Other Terminations**. If you terminate from the Company and its Subsidiaries for any reason other than as provided in subparagraph (b) above, all unvested Performance Units held by you shall be forfeited without payment immediately upon such termination.

(d) **Corporate Change**. Notwithstanding any other provision hereof, unless otherwise provided in an agreement pursuant to Paragraph 13, your Performance Units shall become fully vested at the maximum earned percentage provided in Exhibit A upon the occurrence of a Corporate Change during the Performance Period. If a Corporate Change occurs after the end of the Performance Period and prior to payment of the earned Performance Units, you will be 100% vested in your earned Performance Units upon the Corporate Change and payment will be made in accordance with the results achieved for the Performance Period ended as provided in Exhibit A.

For purposes of this Agreement, employment with the Company includes employment with a Subsidiary.

3. **Payment of Vested Performance Units**. As soon as administratively practicable after the end of the Performance Period, but no later than the March 15th following the end of the Performance Period, or with respect to a Corporate Change occurring prior to the end of the Performance Period, the date of the Corporate Change, you shall be entitled to receive from the Company a payment in cash equal to the product of the Payout Percentage (as defined in Exhibit A) and the sum of the target values of your vested Performance Units. Except as provided in Exhibit A with respect to a Corporate Change, if the performance thresholds set forth in Exhibit A are not met, no payment shall be made with respect to the Performance Units, whether or not vested. Notwithstanding the foregoing, in no event may the amount paid to you by the Company in any year with respect to Performance Units earned hereunder exceed the applicable limit under Article V of the Plan.

4. **Recovery of Payment of Vested Performance Units**. If you are a senior executive of the Company (defined as an employee of the Company or any employing Subsidiary of the Company who is either the Chief Executive Officer of the Company (the "CEO") or a direct report to the CEO) and the extent to which the performance measurements were achieved during any calendar year of the Performance Period changes because of any restatement of the Company's financial results for the same calendar year, and the value of the Performance Units earned at the end of the Performance Period is determined to be an overpayment based on such calendar year's restated financial results, the Compensation Committee may, in its sole and absolute discretion, seek recovery of the

amount of the Performance Award determined to be an overpayment or hold the overpayment as debit against future Performance Awards for up to a two-year period following the end of the Performance Period. In addition, regardless of whether you are a senior executive officer of the Company, the Company may seek recovery of any benefits provided to you under this Agreement if such recovery is required by any clawback policy adopted by the Company, which may be amended from time to time, including, but not limited to, any clawback policy adopted to satisfy the minimum clawback requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations thereunder or any other applicable law.

5. **Limitations Upon Transfer**. All rights under this Agreement shall belong to you and may not be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise), other than by will or the laws of descent and distribution or pursuant to a "qualified domestic relations order" (as defined by the Code), and shall not be subject to execution, attachment, or similar process. Upon any attempt to transfer, assign, pledge, hypothecate, or otherwise dispose of such rights contrary to the provisions in this Agreement or the Plan, or upon the levy of any attachment or similar process upon such rights, such rights shall immediately become null and void.

6. **Withholding of Tax**. Regardless of any action the Company or your employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (1) do not make representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Units including the grant, vesting or payout of the Performance Units; and (2) do not commit to the structure of the terms of the Performance Units or any aspect of the Performance Units to reduce or eliminate your liability for Tax-Related Items. Further, if you have become subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, you acknowledge that the Company and/or Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

   Prior to any relevant taxable or tax withholding event, as applicable, you will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, you authorize the Company and/or your Employer or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (a) withholding from your wages or other cash compensation paid to you by the Company and/or your Employer, or (b) withholding from the payout of the Performance Units.

   To avoid negative accounting treatment, the Company may withhold or account for Tax-Related items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. Finally, you shall pay the Company or the Employer any

amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver the cash settlement or any other form of pay-out for the Performance Units, if you fail to comply with your obligations in connection with the Tax-Related Items.

7. **Nature of Grant**. In accepting the Performance Units, you acknowledge, understand and agree that: (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time; (b) the grant of the Performance Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu of Performance Units, even if Performance Units have been granted repeatedly in the past; (c) all decisions with respect to future Performance Units, if any, will be at the sole discretion of the Company; (d) your participation in the Plan shall not create a right to further employment with your Employer and shall not interfere with the ability of your Employer to terminate your employment at any time; (e) you are voluntarily participating in the Plan; (f) the grant of the Performance Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or your Employer, and which is outside the scope of your employment contract, if any; (g) the Performance Units are not intended to replace any pension rights or compensation; (h) the Performance Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Subsidiary or affiliate of the Company; (i) the Performance Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary or affiliate of the Company; (j) no claim or entitlement to compensation or damages shall arise from the forfeiture of the Performance Units resulting from termination of your active employment with the Company or your Employer (for any reason whatsoever and whether or not in breach of contract or local labor laws) and in consideration of the grant of the Performance Units to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company or your Employer or any Subsidiary, waive your ability, if any, to bring such claim, and release the Company and your Employer and all Subsidiaries from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims; (k) in the event of involuntary termination of your active employment (whether or not in breach of contract or local labor laws), your right to vest in the Performance Units, if any, will terminate effective as of the date that you are no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law), except as expressly provided herein, and that the Company shall have the exclusive discretion to determine

when you are no longer actively employed for purposes of the Performance Units; (l) the Performance Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability; and (m) if you are requested to make repayment under Paragraph 4, you will make repayment immediately.

8. **No Advice Regarding Grant**. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

9. **Data Privacy**. ***You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by and among, as applicable, the Employer, and the Company and its Subsidiaries and affiliates, for the exclusive purpose of implementing, administering and managing your participation in the Plan. You understand that the Company and your Employer hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, details of all Performance Units outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to Morgan Stanley Smith Barney LLC or such other service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. You understand that the recipients may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different date privacy laws and protections from your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the Company, Morgan Stanley Smith Barney LLC and any other possible recipients which may assist the Company (presently or in the future) to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. You understand, however, that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.***

10. **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company or upon any person lawfully claiming under you.

11. **Modification**. Except to the extent permitted by the Plan, any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby.

12. **Plan Controls**. This grant is subject to the terms of the Plan, which are hereby incorporated by reference. In the event of a conflict between the terms of this Agreement and the Plan, the Plan shall be the controlling document. Capitalized terms used herein or in Exhibit A and not otherwise defined herein or in Exhibit A shall have the meaning ascribed to them in the Plan.

13. **Other Agreements**. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall not modify and shall be subject to and governed by the terms and conditions of any employment, severance, and/or change-in-control agreement between the Company (or a Subsidiary) and you, including, but not limited to, any requirement for a double-trigger to provide for vesting in connection with a Corporate Change (as such term is defined in the Plan) rather than a single-trigger.

14. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any document related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

15. **Severability**. If one or more of the provisions of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Agreement to be construed so as to foster the intent of this Agreement and the Plan.

16. **Language**. If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different from the English version, the English version will control.

17. **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas, U.S.A., except to the extent that it implicates matters that are the subject of the General Corporation Law of the State of Delaware, which matters shall be governed by the latter law notwithstanding any conflicts of laws principles that may be applied or invoked directing the application of the laws of another jurisdiction. Exclusive venue for any court or dispute resolution proceeding arising hereunder for any claim or dispute shall be Houston, Harris County, Texas, notwithstanding any conflicts of laws principles that may direct the jurisdiction of any other court, venue, or forum, including the jurisdiction of the employee's home country.

18. **Exhibit B**. Notwithstanding any provisions in this document, the Performance Units shall be subject to any special terms and conditions set forth in Exhibit B to this Agreement for your country. Moreover, if you relocate to one of the countries included in Exhibit B, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. Exhibit B constitutes part of this Agreement.

19. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, or on the Performance Units, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

By signing below, you agree that the grant of these Performance Units is under and governed by the terms and conditions of the Plan, including the terms and conditions set forth in this Agreement, including Exhibit A. **This grant shall be void and of no effect unless you execute this Agreement prior to the payment of your vested performance units.**

KBR, INC.

By: 

Name: William P. Utt
TITLE: Chairman of the Board, President, and CEO

EMPLOYEE:

Date:

EXHIBIT A

To Performance Award Agreement

Performance Goals

Except as otherwise provided in the Agreement, the provisions of this Exhibit A shall determine the extent, if any, that the Performance Units become "earned" and payable.

I. Performance Period

The Performance Period shall be the period beginning January 1, 2011, and ending December 31, 2013.

II. Total Shareholder Return ("TSR")

The payment of a Performance Unit will be determined based on the comparison of (i) the average of the TSRs (as defined below) of the Company's common stock measured at the end of each calendar quarter during the Performance Period, with each quarter's TSR indexed back to the beginning of the Performance Period on January 1, 2011 to (ii) the average of the TSRs of each of the common stocks of the members of the Peer Group measured at the end of each calendar quarter during the Performance Period, with each quarter's TSR indexed back to the beginning of the Performance Period on January 1, 2011.

"TSR" or "Total Shareholder Return" shall mean, with respect to a calendar quarter, the change in the price of a share of common stock from the beginning of the Performance Period (as measured by the closing price of a share of such stock on the last trading day preceding the beginning of the Performance Period) until the end of the applicable calendar quarter to be measured during the Performance Period (as measured by the closing price of a share of such stock on the last trading day of the calendar quarter), adjusted to reflect the reinvestment of dividends (if any) through the purchase of common stock at the closing price on the corresponding dividend payment date, which shall be the ex-dividend date, and rounded to the first decimal place. Dividends per share paid other than in the form of cash shall have a value equal to the amount of such dividends reported by the issuer to its shareholders for purposes of Federal income taxation.

A. Average TSR

The average TSR for a company for the Performance Period shall be the sum of the TSRs of the company measured at the end of each calendar quarter during the Performance Period, divided by 12. The average TSR for a company during the Performance Period shall be calculated based on the following formula:

2011 TSR Formula - Sustained Performance

$$\text{Average indexed performance} = \frac{\sum_{q=1}^{q=12} (x_q / x)}{12}$$

where:

- x = share price at beginning of performance period (measured by closing price on the last trading day preceding the beginning of the performance period)
- x_q = closing share price at the end of each quarter (adjusted for dividends paid, where the dividend payment date is the ex-dividend date)
- q = quarter number (1 through 12)

Example 1:

Date	Share price * (x)	Index (x_q /x)
1/1/2011	$ 20.00	
3/31/2011	$ 22.00	110.0
6/30/2011	$ 24.00	120.0
9/30/2011	$ 21.00	105.0
12/31/2011	$ 20.00	100.0
3/31/2012	$ 18.00	90.0
6/30/2012	$ 22.00	110.0
9/30/2012	$ 25.00	125.0
12/31/2012	$ 28.00	140.0
3/31/2013	$ 31.00	155.0
6/30/2013	$ 33.00	165.0
9/30/2013	$ 30.00	150.0
12/31/2013	$ 28.00	140.0

$$\sum_{q=1}^{q=12} (x_q / x) = 1{,}510.0$$

$$\frac{\sum_{q=1}^{q=12} (x_q / x)}{12} = 125.8$$

* Share price adjusted for dividends paid in the period, where the dividend payment date is the ex-dividend date.

B. Peer Group and Payout

Once the average TSR for the Company during the Performance Period is calculated, the average TSR for each company in the Peer Group shall be calculated.

The Peer Group shall consist of the following companies (including KBR, Inc.):

AECOM Technology Corp.	Chicago Bridge & Iron Co, NV
Chiyoda Corp.	Fluor Corp.
Foster Wheeler Ltd.	Jacobs Engineering Group, Inc.
JGC Corp	Saipem Spa.
Shaw Group Inc.	Technip
Quanta Services, Inc.	URS Group

No company shall be added to, or removed from, the Peer Group during the Performance Period, except that a company shall be removed from the Peer Group if during such period (i) such company ceases to maintain publicly available statements of operations prepared in accordance with GAAP, (ii) such company is not the surviving entity in any merger, consolidation, or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned entity of such company), or (iii) such company sells, leases, or exchanges all or substantially all of its assets to any other person or entity (other than a previously wholly owned entity of such company).

If one or more Peer Group companies are removed from the Peer Group, then the percentiles and payouts will adjust for the change in “n” of the formula provided below. After the average TSR is determined for the Company and each company in the Peer Group, the Company’s average TSR rank among the average TSRs for the Peer Group for the Performance Period and the Company’s applicable TSR payout percentage shall be determined by the following formula:

Peer Group Percentile and Payout Table

Percentile	<25%	25%	50%	83%
Payout	0%	50%	100%	200%

LTI TSR Calculation Method

Performance Level	Ranking	Percentile *	Payout	100% Weighting
	1	100.0%	200.0%	200.0%
	2	91.7%	200.0%	200.0%
Maximum	**3**	**83.3%**	**200.0%**	**200.0%**
	4	75.0%	175.1%	175.1%
	5	66.7%	150.2%	150.2%
	6	58.3%	124.9%	124.9%
Target	**7**	**50.0%**	**100.0%**	**100.0%**
	8	41.7%	83.4%	83.4%
	9	33.3%	66.6%	66.6%
Threshold	**10**	**25.0%**	**50.0%**	**50.0%**
	11	16.7%	0.0%	0.0%
	12	8.3%	0.0%	0.0%
	13	0.0%	0.0%	0.0%

* Rounded to 1 decimal place

Percentile for TSR purposes

$$\text{Percentile} = \frac{(n - r)}{(n - 1)} * 100\%$$

where:

n = number of Peer Group companies (including KBR)
r = KBR ranking in the list of companies (including KBR)

Example 1
KBR ranked 8th out of 12 companies
(12 - 8) * 100% = 36.4%
(12 - 1)

Example 2
KBR ranked 4th out of 11 companies
(11 - 4) * 100% = 70.0%
(11 - 1)

Example 3
KBR ranked 7th out of 13 companies
(13 - 7) * 100% = 50.0%
(13 - 1)

Example 4
KBR ranked 9th out of 13 companies
(13 - 9) * 100% = 33.3%
(13 - 1)

III. Determination of the "Earned" Value of Performance Units

Performance Percentage	Column A Weighting	Column B <Threshold 0%	Threshold 50%	Target 100%	Maximum 200%
Company's Average TSR Rank with Peer Group Members' Average TSR	100%	<25th	25th	50th	83rd

For a result (the "Performance Percentage") between Threshold and Target or Target and Maximum in Column B, the Performance Percentage earned shall be determined by linear interpolation between the two applicable standards based on the result achieved for the Performance Measure.

The "target" value of a Performance Unit is $1.00; its maximum value is $2.00 per unit if the maximum performance objective for the Performance Measure in Column B is achieved, and the Performance Unit value will be zero if the threshold performance objective for the Performance Measure is not achieved. The value of an "earned" Performance Unit shall be determined by multiplying its "target" value of $1.00 by the Payout Percentage for the Performance Period. The "Payout Percentage" for a Performance Unit shall be determined by multiplying Column A by the Column B Performance Percentage result for the Performance Measure.

Notwithstanding the foregoing, unless otherwise provided in an agreement pursuant to Paragraph 13 of the Agreement, for purposes of determining the Payout Percentage for payment upon a Corporate Change occurring prior to the end of the Performance Period, the Column B result for the Performance Measure shall be deemed to have been met at the maximum level (200%).

IV. Adjustments to Performance Measurements for Significant Events

If, after the beginning of the Performance Period, there is a change in accounting standards required by the Financial Accounting Standards Board, the performance results shall be adjusted by the Company's independent accountants as appropriate to disregard such change. In addition, the results of the Company or a peer group company shall be adjusted to reflect any stock splits or other events described in Article XIII of the Plan, but only if such adjustment would not cause the performance goal to no longer satisfy the requirements of Section 162(m) of the Code.

V. Committee Certification

As soon as reasonably practical following the end of the Performance Period, but in no event later than the March 15th following the end of the Performance Period, the Committee shall review and determine the performance results for the Performance Period and certify those results in writing. No Performance Units earned and vested shall be payable prior to the Committee's certification; provided, however, Committee certification shall not apply in the event of a Corporate Change, unless otherwise provided in an agreement pursuant to paragraph 13 of the Agreement.

EXHIBIT B

KBR, INC.

Terms and Conditions of Performance Unit Grant

SPECIAL PROVISIONS OF PERFORMANCE UNITS IN CERTAIN COUNTRIES

This Exhibit B includes additional country-specific terms that apply to residents in countries listed below. This Exhibit B is part of the Agreement. Unless otherwise provided below, capitalized terms used but not defined herein shall have the same meanings assigned to them in the Plan and the Agreement.

This Exhibit B also includes information regarding exchange controls and certain other issues of which you should be aware with respect to your participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of February 2011. Such laws are often complex and change frequently. As a result, the Company strongly recommends that you do not rely on the information noted herein as the only source of information relating to the consequences of your participation in the Plan because the information may be out of date at the time your Performance Units vest or your Performance Units are settled under the Plan.

In addition, the information is general in nature and may not apply to your particular situation, and the Company is not in a position to assure you of any particular result. Accordingly, you are advised to seek appropriate professional advice as to how the relevant laws in your country may apply to your situation.

Note that if you are a citizen or resident of a country other than the country in which you are working or if you transfer employment after the Performance Units are granted to you, the information contained in this Exhibit B may not be applicable to you.

ALGERIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

You acknowledge that, even though you receive only a cash payment upon vesting of the Performance Units, you still may be subject to certain exchange control requirements under local laws. You are required to repatriate any cash payment you receive upon settlement of the Performance Units to Algeria. You are advised to consult with your personal legal consultant to ensure compliance with any exchange control obligations arising from your participation in the Plan.

ANGOLA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

You acknowledge that, even though you receive only a cash payment upon vesting of the Performance Units, you still may be subject to certain exchange control requirements under local laws. You may be required to repatriate any cash payment you receive upon settlement of the Performance Units to Algeria. You are advised to consult with your personal legal consultant to ensure compliance with any exchange control obligations arising from your participation in the Plan.

AUSTRALIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

Exchange control reporting is required for cash transactions exceeding AUD10,000 and for international fund transfers. The Australian bank assisting with the transaction will file the report for you. If there is no Australian bank involved in the transfer, you will have to file the report.

AZERBAIJAN
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Securities Law Information.

You understand that the Agreement, the Plan and all other materials you may receive regarding your participation in the Plan do not constitute advertising or offering of securities in Azerbaijan. The Plan will not be registered in Azerbaijan and may not be used for sale or public circulation in Azerbaijan.

BANGLADESH
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

You acknowledge that, even though you receive only a cash payment upon vesting of the Performance Units, you still may be subject to certain exchange control requirements under local laws. You must repatriate any funds you receive as a result of the cash payment to Bangladesh. You are advised to consult with your personal legal consultant to ensure compliance with any exchange control obligations arising from your participation in the Plan.

CANADA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Data Privacy.

This provision supplements Paragraph 7 of the Agreement:

You hereby authorize the Company and representatives of any Subsidiary or affiliate to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. You further authorize the Company and any Subsidiary or affiliate and the administrators of the Plan to disclose and discuss the Plan with their advisors. You further authorize the Company and any Subsidiary or affiliate to record such information and to keep such information in your file.

Termination of Employment.

The following provision supplements Paragraph 2 of the Agreement:

In the event of your termination of employment for any reason (whether or not in breach of local labor laws), your right to vest in the Performance Units will terminate effective as of the date that is the earlier of (1) the date you receive notice of termination of employment from the Employer, or (2) the date you are no longer actively providing service, regardless of any notice period or period of pay in lieu of such notice required under applicable laws (including, but not limited to statutory law, regulatory law and/or common law); the Company shall have the exclusive discretion to determine when you are no longer actively employed for purposes of the Performance Units.

The following provision shall apply if you are a resident of Quebec:

Language Consent.

The parties acknowledge that it is their express wish that the Agreement, including this Exhibit, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Consentement relatif à la langue utilisée. Les parties reconnaissent avoir expressément souhaité que la convention («Agreement») ainsi que cette Annexe, ainsi que tous les documents, avis et procédures judiciaires, éxécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à la présente convention, soient rédigés en langue anglaise.

FRANCE
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Consent to Receive Information in English .

En acceptant le attribution, vous confirmez ainsi avoir lu et compris les documents attribution (le Plan et ce Contrat d'Attribution) qui vous ont été communiqués en langue anglaise. Vous en acceptez les termes en connaissance de cause.

By accepting the grant, you confirm having read and understood the documents relating to this grant (the Plan and this Agreement) which were provided to you in English. You accept the terms of those documents accordingly.

EGYPT
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

If you transfer funds into Egypt in connection with the settlement of your Performance Units, you may be required to transfer the funds through a bank registered in Egypt.

GERMANY
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

Cross-border payments in excess of €12,500 must be reported monthly to the State Central Bank. If you use a German bank to affect a cross-border transaction in excess of €12,500, the bank will make the report in which case, you will not have to report the transaction yourself. In addition, you must report any receivables or payables or debts in foreign currency exceeding an amount of €5,000,000 on a monthly basis. Finally, you also must report your shareholding on an annual basis in the unlikely event that you hold shares representing 10% or more of the total or voting capital of the Company.

INDIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

You must repatriate the proceeds from the settlement of your Performance Units and convert the proceeds into local currency within a reasonable timeframe (*i.e.*, 90 days of receipt. You will receive a foreign inward remittance certificate ("FIRC") from the bank where you deposit the foreign currency. You should maintain the FIRC received from the bank as evidence of the repatriation of the funds in the event that the Reserve Bank of India or the Employer requests proof of repatriation.

INDONESIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Exchange Control Information.

If you remit funds into Indonesia, the Indonesian Bank through which the transaction is made will submit a report on the transaction to the Bank of Indonesia for statistical reporting purposes. For transactions of US$10,000 or more, a description of the transaction must be included in the report. Although the bank through which the transaction is made is required to make the report, you must complete a "Transfer Report Form." The Transfer Report Form will be provided to you by the bank through which the transaction is to be made.

IRAQ
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

ITALY
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Data Privacy Notice.

This section replaces Paragraph 7 of the Agreement:

You understand that the Company and the Employer are the privacy representative of the Company in Italy and may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance or other identification number, salary, nationality, job title, any Stock or directorships held in the Company or any Subsidiaries or affiliates, details of all Performance Units or any other entitlement to Stock awarded, canceled, exercised, vested, unvested or outstanding in your favor, and that the Company and the Employer will process said data and other data lawfully received from third parties ("Personal Data") for the exclusive purpose of managing and administering the Plan and complying with applicable laws, regulations and Community legislation. You also understand that providing the Company with Personal Data is mandatory for compliance with laws and is necessary for the performance of the Plan and that your denial to provide Personal Data would make it impossible for the Company to perform its contractual obligations and may affect your ability to participate in the Plan. You understand that Personal Data will not be publicized, but it may be accessible by the Employer as the privacy representative of the Company and within the Employer's organization by its internal and external personnel in charge of processing, and by Smith Barney or any other data processor appointed by the Company. The updated list of processors and of the subjects to which Data are communicated will remain available upon request from the Employer.

Furthermore, Personal Data may be transferred to banks, other financial institutions or brokers involved in the management and administration of the Plan. You understand that Personal Data also may be transferred to the independent registered public accounting firm engaged by the Company, and also to the legitimate addressees under applicable laws. You further understand that the Company and its Subsidiaries or affiliates will transfer Personal Data amongst themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan, and that the Company and its Subsidiaries or affiliates may each further transfer Personal Data to third parties assisting the Company in the implementation, administration and management of the Plan, including any requisite transfer of Personal Data to Smith Barney or other third party with whom you may elect to deposit any proceeds from the participation in the Plan. Such recipients may receive, possess, use, retain and transfer Personal Data in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan. You understand that these recipients may be acting as controllers, processors or persons in charge of processing, as the case may be, according to applicable privacy laws, and that they may be located in or outside the European Economic Area, such as in the United States or elsewhere, in countries that do not provide an adequate level of data protection as intended under Italian privacy law.

Should the Company exercise its discretion in suspending all necessary legal obligations connected with the management and administration of the Plan, it will delete Personal Data as soon as it has accomplished all the necessary legal obligations connected with the management and administration of the Plan.

You understand that Personal Data processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Personal Data is collected and with confidentiality and security provisions as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/2003.

The processing activity, including communication, the transfer of Personal Data abroad, including outside of the European Economic Area, as specified herein and pursuant to applicable laws and regulations, does not require your consent thereto as the processing is necessary to performance of law and contractual obligations related to implementation, administration and management of the Plan. You understand that, pursuant to section 7 of the Legislative Decree no. 196/2003, you have the right at any moment to, including, but not limited to, obtain confirmation that Personal Data exists or not, access, verify its contents, origin and accuracy, delete, update, integrate, correct, blocked or stop, for legitimate reason, the Personal Data processing. To exercise privacy rights, you should contact the Employer. Furthermore, you are aware that Personal Data will not be used for direct marketing purposes. In addition, Personal Data provided can be reviewed and questions or complaints can be addressed by contacting your human resources department.

Plan Document Acknowledgment.

In accepting the Performance Units, you acknowledge that you have received a copy of the Plan and the Agreement and have reviewed the Plan and the Agreement, including this Exhibit B, in their entirety and fully understand and accept all provisions of the Plan and the Agreement, including this Exhibit B. You further acknowledges that you have read and specifically and expressly approve the following Paragraphs of the Agreement: Paragraph 2; Paragraph 3: Payment of Performance Units; Paragraph 4: Limitations on Transfer; Paragraph 5: Withholding of Tax; Paragraph 6: Nature of Grant; Paragraph 12: Electronic Delivery; Paragraph 15: Governing Law; Paragraph 18: Exhibit B and the Data Privacy Notice in this Exhibit B.

Exchange Control Information.

Exchange control reporting is required if you transfer cash to Italy in excess of €10,000 or the equivalent amount in U.S. dollars. If the payment is made through an authorized broker resident in Italy, the broker will comply with the reporting obligation. In addition, you will have exchange control reporting obligations if you have any foreign investment held outside Italy in excess of €10,000. The reporting must be done on your individual tax return.

JAPAN
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

KAZAKHSTAN
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

KOREA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country-specific provisions.

MALAYSIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Director Notification Information.

If you are a director of a Malaysian Subsidiary, you may need to notify the Malaysian Subsidiary in writing within fourteen days of your receiving or disposing of an interest (*e.g.*, Performance Units) in the Company or any Subsidiary. This notification requirement also applies to a shadow director of the Malaysian Subsidiary (*i.e.*, an individual who is not on the board of directors of the Malaysian Subsidiary but who has sufficient control so that the board of directors of the Malaysian Subsidiary acts in accordance with the "directions or instructions" of the individual).

MEXICO
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Acknowledgement of the Agreement.

In accepting the award of Performance Units, you acknowledge that you have received a copy of the Plan, have reviewed the Plan and the Agreement in their entirety and fully understand and accept all provisions of the Plan and the Agreement. You further acknowledge that you have read and specifically and expressly approve the terms and conditions of Paragraph 6 of the Agreement, in which the following is clearly described and established:

(1) Your participation in the Plan does not constitute an acquired right.

(2) The Plan and your participation in the Plan are offered by the Company on a wholly discretionary basis.

(3) Your participation in the Plan is voluntary.

Labor Law Acknowledgement and Policy Statement.

In accepting the award of Performance Units, you expressly recognize that KBR, Inc., with registered offices at 601 Jefferson Street, Suite 3400, Houston, Texas 77002, U.S.A., is solely responsible for the administration of the Plan and that your participation in the Plan and receipt of Performance Units does not constitute an employment relationship between you and KBR, Inc. since you are participating in the Plan on a wholly commercial basis and your sole employer is KBR in Mexico ("KBR-Mexico"), not KBR, Inc. in the U.S. Based on the foregoing, you expressly recognize that the Plan and the benefits that you may derive from participation in the Plan do not establish any rights between you and your Employer, KBR-Mexico, and do not form part of the employment conditions and/or benefits provided by KBR-Mexico and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of your employment.

You further understand that your participation in the Plan is as a result of a unilateral and discretionary decision of KBR, Inc.; therefore, KBR, Inc. reserves the absolute right to amend and/or discontinue your participation at any time without any liability to you.

Finally, you hereby declare that you do not reserve to yourself any action or right to bring any claim against KBR, Inc. for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and you therefore grant a full and broad release to KBR, Inc., its Subsidiary, affiliates, branches, representation offices, its shareholders, officers, agents or legal representatives with respect to any claim that may arise.

***Reconocimiento del Convenio*.**

Aceptando este Premio (Award),[1] *el Participante reconoce que ha recibido una copia del Plan, que lo ha revisado como así también el Convenio en el Participante totalidad, y comprende y está de acuerdo con todas las disposiciones tanto del Plan como del Convenio. Asimismo, su reconoce que ha leído y específicamente y expresamente manifiesta la conformidad del Participante con los términos y condiciones establecidos en la cláusula 6 le dicho Convenio, en el cual se establece claramente que:*

(1) La participación del Participante en el Plan de ninguna manera constituye un derecho adquirido.

(2) Que el Plan y la participación del Participante en el mismo es una oferta por parte de KBR, Inc. de forma completamente discrecional.

(3) Que la participación del Participante en el Plan es voluntaria.

***Reconocimiento de Ausencia de Relación Laboral y Declaración de la Política*.**

Aceptando este Premio, el Participante reconoce que KBR, Inc. y sus oficinas registradas en 601 Jefferson Street, Suite 3400, Houston, Texas 77002, U.S.A., es el único responsable de la administración del Plan y que la participación del Participante en el mismo y la adquisicion de Acciones no constituye de ninguna manera una relación laboral entre el Participante y KBR, Inc., toda vez que la participación del Participante en el Plan deriva únicamente de una relación comercial con KBR, Inc., reconociendo expresamente que el único empleador del Participante lo es KBR en Mexico ("KBR-Mexico"), no es KBR, Inc. en los Estados Unidos. Derivado de lo anterior, el Participante expresamente reconoce que el Plan y los beneficios que pudieran derivar del mismo no establecen ningún derecho entre el Participante y su empleador, KBR-México, y no forman parte de las condiciones laborales y/o prestaciones otorgadas por KBR-México, y expresamente el Participante reconoce que cualquier modificación al Plan o la terminación del mismo de manera alguna podrá ser interpretada como una modificación de los condiciones de trabajo del Participante.

Asimismo, el Participante entiende que su participación en el Plan es resultado de la decisión unilateral y discrecional de KBR, Inc., por lo tanto, KBR, Inc. se reserva el derecho absoluto para modificar y/o terminar la participación del Participante en cualquier momento, sin ninguna responsabilidad para el Participante.

Finalmente, el Participante manifiesta que no se reserva ninguna acción o derecho que origine una demanda en contra de KBR, Inc., por cualquier compensación o daño en relación con cualquier disposición del Plan o de los beneficios derivados del mismo, y en consecuencia el Participante otorga un amplio y total finiquito a KBR, Inc., sus Entidades Relacionadas, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales con respecto a cualquier demanda que pudiera surgir.

[1] *El término "Premio" se refiere a la palabra "Performance Units."*

NIGERIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

PAPUA NEW GUINEA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

QATAR
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

RUSSIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

U.S. Transaction.

You understand that the Performance Units shall be valid and the Agreement shall be concluded and become effective only when the Agreement is sent and/or received by the Company in the United States.

Exchange Control Information.

You must repatriate the cash payment from the settlement of the Performance Units within a reasonably short time of receipt. The cash payment must be initially credited to you through a foreign currency account opened in your name at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

SAUDI ARABIA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Securities Law Information.

The Agreement may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority.

The Capital Market Authority does not make any representation as to the accuracy or completeness of the Agreement, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of the Agreement. You are hereby advised to conduct your own due diligence on the accuracy of the information relating to the Performance Units. If you do not understand the contents of the Agreement, you should consult an authorized financial adviser.

SINGAPORE
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Director Notification Information.

If you are a director of a Singapore Subsidiary, you may need to notify the Singapore Subsidiary in writing within two days of your receiving an interest (*e.g.*, Performance Units) in the Company or any Subsidiary or within two days of you becoming a director if such an interest exists at the time. This notification requirement also applies to an associate director of the Singapore Subsidiary and to a shadow director of the Singapore Subsidiary (*i.e.*, an individual who is not on the board of directors of the Singapore Subsidiary but who has sufficient control so that the board of directors of the Singapore Subsidiary acts in accordance with the "directions and instructions" of the individual).

SOUTH AFRICA
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Tax Withholding Notification.

By your acceptance of the Performance Units and the Agreement, you agree to notify your Employer of the amount you receive upon settlement of the Performance Units. Once the notification is made, your Employer will obtain a directive from the South African Revenue Service as to the correct amount of tax to be withheld. If you fail to advise your Employer of any cash settlement you receive, you may be liable for a fine. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

Exchange Control Information.

You are solely responsible for complying with applicable South African exchange control regulations. Because the exchange control regulations change frequently and without notice, you should consult your legal advisor prior to the settlement of the Performance Units to ensure compliance with current regulations. As noted, it is your responsibility to comply with South African exchange control laws, and neither the Company nor your Employer will be liable for any fines or penalties resulting from failure to comply with applicable laws.

SWEDEN
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

UNITED ARAB EMIRATES
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Securities Law Information.

The Plan is only being offered to qualified Employees and is in the nature of providing equity incentives to employees of the Company's affiliate in the UAE. Any documents related to the Plan, including the Plan, Plan prospectus and other grant documents ("Plan Documents"), are intended for distribution only to such Employees and must not be delivered to, or relied on by, any other person. Prospective participants should conduct their own due diligence on the securities. If you do not understand the contents of the Plan Documents, you should consult an authorized financial adviser.

The relevant securities authorities have no responsibility for reviewing or verifying any Plan Documents. UAE securities or financial/economic authorities have not approved the Plan Documents, nor taken steps to verify the information set out in them, and thus, are not responsible for their content.

The underlying securities to which this summary relates may be illiquid and/or subject to restrictions on their resale. Prospective participants should conduct their own due diligence on the underlying securities.

UNITED KINGDOM
KBR, INC. 2006 STOCK AND INCENTIVE PLAN

Withholding of Taxes.

This section supplements Paragraph 5 of the Agreement:

Notwithstanding Paragraph 5 of the Agreement, you agree that if you do not pay or the Employer or the Company does not withhold from you the full amount of Tax-Related Items that you owe due to the vesting/settlement of the Performance Units, or the release or assignment of the Performance Units for consideration, or the receipt of any other benefit in connection with the Performance Units (the "Taxable Event") within 90 days after the Taxable Event, or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003, then the amount of income tax that should have been withheld shall constitute a loan owed by you to the Employer, effective 90 days after the Taxable Event. You agree that the loan will bear interest at Her Majesty's Revenue & Customs ("HMRC") official rate and will be immediately due and repayable by you, and the Company and/or the Employer may recover it at any time thereafter by withholding the funds from salary, bonus or any other funds due to you by the Employer, or from the cash payment from the settlement of the Performance Units or by demanding cash or a cheque from you. You also authorize the Company to delay the issuance of any cash settlement to you unless and until the loan is repaid in full.

Notwithstanding the foregoing, if you are an officer or executive director (as within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), the terms of the immediately foregoing provision will not apply. In the event that you are an officer or executive director and the amount necessary to satisfy the Tax-Related Items is not collected from or paid by you within 90 days of the Taxable Event, any uncollected amounts of income tax may constitute a benefit to you on which additional income tax and national insurance contributions may be payable. You acknowledge that the Company or the Employer may recover any such additional income tax and national insurance contributions at any time thereafter by any of the means referred to in Paragraph 5 of the Agreement. You understand that you will be responsible for reporting any income and national insurance contributions due on this additional benefit directly to the HMRC under the self-assessment regime.

Exhibit 10.2

KBR SENIOR EXECUTIVE PERFORMANCE PAY PLAN

RESTATED JANUARY 1, 2011

INDEX

KBR SENIOR EXECUTIVE PERFORMANCE PAY PLAN

The Board of Directors of KBR, Inc. (the "Board") previously established the KBR, Inc. 2006 Stock and Incentive Plan (the "2006 Plan"). Section XI of the 2006 Plan authorizes the Compensation Committee of the Board to grant "Performance Awards" with such terms as the Compensation Committee may establish in its discretion. Effective January 1, 2011 (except as otherwise indicated in specific provisions of the Plan), the Compensation Committee hereby restates this KBR Senior Executive Performance Pay Plan (the "Plan") pursuant to the provisions of Article XI of the 2006 Plan. All awards under this Plan are intended to qualify as qualified performance-based compensation under Section 162(m) of the Code to the extent such awards are made to participants who are "covered employees" as that term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended.

ARTICLE I
PURPOSE

The purpose of the Plan is to reward management of the Company and its Affiliates for improving financial results which drive the creation of value for shareholders of the Company and thereby, serve to attract, motivate, reward, and retain high caliber employees required for the success of the Company. The Plan provides a means to link total and individual cash compensation to Company performance.

ARTICLE II
DEFINITIONS

2.1 Definitions. Where the following words and phrases appear in the Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary.

"Affiliate" shall mean a Subsidiary of the Company or a division or designated group of the Company or a Subsidiary.

"Base Salary" shall mean the Participant's annual base salary as determined on the first day of January during the applicable calendar year (or the first day an employee becomes eligible to participate in the Plan if such day occurs after the first day of January). For purposes of this calculation, Base Salary includes base salary a Participant could have received in cash in lieu of (i) contributions made on such Participant's behalf to a qualified plan maintained by the Company or to any cafeteria plan under Section 125 of the Code maintained by the Company and (ii) deferrals of compensation made at the Participant's election pursuant to a plan or arrangement of the Company or an Affiliate, but excluding any Rewards under this Plan and any other bonuses, incentive pay or special awards.

"Beneficiary" shall mean the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive the benefits specified under the Plan in the event of the Participant's death prior to full payment of a Reward.

"Board of Directors" shall mean the Board of Directors of the Company.

"CEO" shall mean the Chief Executive Officer of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of Directors of the Company, appointed by the Board of Directors from among its members, no member of which shall be an employee of the Company or a Subsidiary.

"Common Stock" shall mean the common stock, par value $0.001 per share of KBR, Inc.

"Company" shall mean KBR, Inc. and its successors.

"Corporate Change" shall mean one of the following events: (i) the merger, consolidation or other reorganization of the Company in which the outstanding Common Stock is converted into or exchanged for a different class of securities of the Company, a class of securities of any other issuer (except a direct or indirect wholly owned Subsidiary), cash or property; (ii) the sale, lease or exchange of all or substantially all of the assets of the Company to another corporation or entity (except a direct or indirect wholly owned Subsidiary); (iii) the adoption by the stockholders of the Company of a plan of liquidation and dissolution; (iv) the acquisition (other than any acquisition pursuant to any other clause of this definition) by any person or entity, including, without limitation, a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, of beneficial ownership, as contemplated by such Section, of more than twenty percent (based on voting power) of the Company's outstanding capital stock, *provided, however,* that, this clause (iv) shall not apply to the acquisition or beneficial ownership by Halliburton Company of the Company's outstanding capital stock so long as Halliburton Company is the beneficial owner of more than twenty percent (based on voting power) of the Company's outstanding capital stock, unless and until such time as Halliburton Company shall cease to be the beneficial owner of more than twenty percent (based on voting power) of the Company's outstanding capital stock and thereafter Halliburton Company, together with any persons or entities which could be included with Halliburton Company as a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, shall acquire beneficial ownership of more than twenty percent (based on voting power) of the Company's outstanding capital stock; or (v) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board.

"Dispute Resolution Program" shall mean the Halliburton Dispute Resolution Program or its successor, the KBR Dispute Resolution Program.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Officer" shall mean a full officer of the Company or an Affiliate.

"Participant" shall mean any active employee of the Company or an Affiliate who participates in the Plan pursuant to the provisions of Article III hereof. An employee shall not be eligible to participate in the Plan while on a leave of absence.

"Participant Category" shall mean a grouping of Participants determined in accordance with the applicable provisions of Article III.

"Payment Date" shall mean, with respect to a particular Plan Year, the date the Reward is actually paid, which shall be as soon as administratively practicable following the end of the applicable Plan Year, but in no event later than the March 15th following the applicable Plan Year.

"Performance Goals" shall mean, for a particular Plan Year, established levels of applicable Performance Measures.

"Performance Measures" shall mean the criteria used in determining Performance Goals for particular Participant Categories, which may include one or more of the performance measures identified in Article XI of the 2006 Plan. Performance Measures may vary from business unit to business unit and from Participant to Participant within a particular business unit as deemed appropriate.

"Plan" shall mean the KBR Senior Executive Performance Pay Plan restated effective January 1, 2011, and as the same may thereafter be amended from time to time.

"Plan Year" shall mean the calendar year ending each December 31.

"Reward" shall mean the dollar amount of incentive compensation payable to a Participant under the Plan for a Plan Year determined in accordance with Section 5.3.

"Reward Opportunity" shall mean, with respect to each Participant Category, incentive reward payment amounts, expressed as a percentage of Base Salary, which correspond to various levels of pre-established Performance Goals, determined pursuant to the Reward Schedule.

"Reward Schedule" shall mean the schedule which aligns the level of achievement of applicable Performance Goals with Reward Opportunities for a particular Plan Year, such that the level of achievement of the pre-established Performance Goals at the end of such Plan Year will determine the actual Reward.

"Senior Executive" shall mean (i) the CEO and (ii) any regular, full-time employee of the Company or an Affiliate who (A) is an Officer required to file reports with the Securities and Exchange Commission under Section 16 of the Securities Exchange Act of 1934, (B) is an Officer who reports directly to the CEO, (C) is the Chief Accounting Officer of the Company, or (D) is the highest ranking management position (with at least a title of Director or above) with direct oversight over internal audits of the Company.

"Subsidiary" shall mean at any given time, a company (whether a corporation, partnership, limited liability company or other form of entity) in which the Company or any other of its Subsidiaries or both owns, directly or indirectly, an aggregate equity interest of 50% or more.

2.2 Number. Wherever appropriate herein, words used in the singular shall be considered to include the plural, and words used in the plural shall be considered to include the singular.

2.3 Headings. The headings of Articles and Sections herein are included solely for convenience, and if there is any conflict between headings and the text of the Plan, the text shall control.

ARTICLE III
PARTICIPATION

3.1 Participants. Active employees who are Senior Executives as of the beginning of each Plan Year shall be Participants for such Plan Year.

3.2 Partial Plan Year Participation. If, after the beginning of a Plan Year, an employee who was not previously a Participant for such Plan Year (i) is newly appointed or elected as a Senior Executive or (ii) returns to active employment as a Senior Executive following a leave of absence, such employee shall become a Participant effective with the first day of the month following such appointment or election or return to active service, as the case may be, for the balance of the Plan Year, on a prorated basis, unless the Committee shall determine, in its sole discretion, that the participation shall be delayed until the beginning of the next Plan Year.

If an employee who has previously been designated as a Participant for a particular Plan Year takes a leave of absence during such Plan Year, the Committee may exercise its discretion to reduce Participant's rights to a Reward for such Plan Year on a prorated basis corresponding to that portion of the Plan Year during which he or she was no longer an active Participant, in which case the prorated portion of the Reward shall be paid in accordance with the provisions of Section 6.1.

Each Participant shall be assigned to a Participant Category at the time he or she becomes a Participant for a particular Plan Year. If a Participant thereafter incurs a change in status due to promotion, demotion, reassignment or transfer, such Participant's Reward Opportunity shall be automatically adjusted to correspond with the Reward Opportunity for the new Participant Category, such adjustment to be made on a pro rata basis for the balance of the Plan Year effective with the first day of the month following such change in status, unless the Committee exercises its discretion to reduce Participant's rights to a Reward for such Plan Year on a prorated basis corresponding to that portion of the Plan Year during which he or she had a change in status.

3.3 No Right to Participate. Except as provided in Sections 3.1 and 3.2, no Participant or other employee of the Company or an Affiliate shall, at any time, have a right to participate in the Plan for any Plan Year, notwithstanding having previously participated in the Plan.

3.4 Plan Exclusive. No employee shall simultaneously participate in this Plan and in any other short-term incentive plan of the Company or an Affiliate unless such employee's participation in such other plan is approved by the CEO, or his delegate.

3.5 Consent to Dispute Resolution. Participation in the Plan constitutes consent by the Participant to be bound by the terms and conditions of the Dispute Resolution Program which in substance requires that all disputes arising out of or in any way related to employment with the Company or its Affiliates, including any disputes concerning the Plan, be resolved exclusively through such program, which includes binding arbitration as the last step.

ARTICLE IV
ADMINISTRATION

Each Plan Year, the Committee shall establish the basis for payments under the Plan in relation to given Performance Goals, as more fully described in Article V hereof, and, following the end of each Plan Year, determine the actual Reward payable for each Participant Category. The Committee shall construe and interpret the Plan, prescribe, amend and rescind rules, regulations and procedures relating to its administration and make all other determinations necessary or advisable for administration of the Plan. Decisions of the Committee shall be conclusive and binding. Subject only to compliance with the express provisions hereof, the Committee may act in its sole and absolute discretion with respect to matters within its authority under the Plan.

ARTICLE V
REWARD DETERMINATIONS

5.1 Performance Measures. A combination of Performance Measures shall be used in determining Performance Goals for any Plan Year.

5.2 Performance Requirements. No later than the first 90 days after the commencement of each Plan Year, (i) the Committee shall approve the Performance Measures applicable to certain Participants, and (ii) the Committee shall establish a Reward Schedule which aligns the level of achievement of applicable Performance Goals with Reward Opportunities, such that the level of achievement of the pre-established Performance Goals at the end of the Plan Year will determine the actual Reward.

5.3 Reward Determinations. After the end of each Plan Year, the Committee shall determine the extent to which the Performance Goals have been achieved, and the amount of the Reward shall be computed for each Participant in accordance with the Reward Schedule.

5.4 Reward Opportunities. The established Reward Opportunities may vary in relation to the Participant Categories and within the Participant Categories. In the event a Participant changes Participant Categories during a Plan Year, the Participant's Reward Opportunities shall be adjusted in accordance with the applicable provisions of Section 3.2.

5.5 Discretionary Adjustments. Once established, Performance Goals will not be changed during the Plan Year. However, if the Committee, in its sole and absolute discretion, determines that there has been (i) a change in the business, operations, corporate, or capital structure, (ii) a change in the manner in which business is conducted, (iii) any incorrect assumptions, omissions, forecasting, or budgeting used in the initial establishment of the Performance Goals, or (iv) any other material change or event which will impact one or more Performance Goals in a manner the Committee did not intend, then the Committee may, reasonably contemporaneously with such change, incorrect forecasting or budgeting, or event, make negative adjustments to reduce or eliminate the compensation that was due upon attainment of the Performance Goals as it shall deem appropriate and equitable. In addition, if, within a two-year period beginning on the date that a Reward is paid, the basis upon which the Performance Goals were achieved for a Plan Year changes because of any material restatement of the Company's financial results for the same Plan Year, and the Reward is determined to be an overpayment based on such Plan Year's restated financial results, the Committee may, in its sole discretion, seek recovery of the amount of the Reward determined to be an overpayment or hold the overpayment as debit against future Rewards. Effective January 1, 2010, Rewards based on Performance Goals that are measured during 2010 or after and paid in 2011 or after shall be subject to the same clawback provision in the preceding sentence except that any clawback shall be based on a restatement of the Company's financial results instead of a material restatement of the Company's financial results. Notwithstanding the foregoing, the clawback in this Section 5.5 shall be automatically amended to meet any clawback policy adopted by the Company, including, but not limited to, any clawback policy adopted to satisfy the minimum clawback requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations thereunder or any other applicable law.

ARTICLE VI
DISTRIBUTION OF REWARDS

6.1 Form and Timing of Payment. Except as otherwise provided below, the amount of each Reward shall be paid in a cash lump sum on the Payment Date. In the event of termination of a Participant's employment prior to the Payment Date for any reason other than death (in which case payment shall be made in accordance with the applicable provisions of Article VII), the amount of any Reward (or prorated portion thereof) payable pursuant to the provisions of Sections 7.1 or 7.2 shall be paid in cash on the Payment Date.

6.2 Elective Deferral. Nothing herein shall be deemed to preclude a Participant's election to defer receipt of a percentage of his or her Reward beyond the time such amount would have been payable hereunder pursuant to the KBR Elective Deferral Plan or other similar plan and in compliance with the requirements of Code Section 409A and related regulations and U.S. Department of Treasury pronouncements.

6.3 Tax Withholding. The Company or employing entity through which payment of a Reward is to be made shall have the right to deduct from any payment hereunder any amounts that Federal, state, local or foreign tax laws require with respect to such payments.

ARTICLE VII
TERMINATION OF EMPLOYMENT

7.1 Termination of Service During Plan Year. In the event a Participant's employment is terminated prior to the last business day of a Plan Year for any reason other than death, normal retirement at or after age 65, or disability (as determined under the Company's Long Term Disability Plan), all of such Participant's rights to a Reward for such Plan Year shall be forfeited unless the Committee shall determine that such Participant's Reward for such Plan Year shall be prorated based upon that portion of the Plan Year during which he or she was a Participant, in which case the prorated portion of the Reward shall be paid in accordance with the provisions of Section 6.1. In the case of death during the Plan Year, the prorated amount of such Participant's Reward shall be paid to the Participant's estate, or if there is no administration of the estate, to the heirs at law, on the Payment Date. In the case of disability or normal retirement at or after age 65, the prorated amount of a Participant's Reward shall be paid in accordance with the provisions of Section 6.1.

7.2 Termination of Service After End of Plan Year But Prior to the Payment Date. If a Participant's employment is terminated for any reason other than death, normal retirement at or after age 65, or disability (as determined under the Company's Long Term Disability Plan) after the end of the applicable Plan Year, but prior to the Payment Date, or if a Participant is employed but is not in good standing with the Company (or its Affiliates), as determined in the absolute and sole discretion of the Compensation Committee, on the Payment Date, all of such Participant's rights to a Reward for such Plan Year shall be forfeited. In the case of death after the end of the applicable Plan Year, but prior to the Payment Date, the amount of the Reward shall be paid to such Participant's estate, or if there is no administration of the estate, to the heirs at law, as soon as practicable, but not later than the Payment Date. In the case of disability or normal retirement at or after age 65 after the end of the applicable Plan Year, but prior to the Payment Date, or in the absolute and sole discretion of the Compensation Committee, the amount of the Reward then unpaid shall be paid to the Participant in accordance with the provisions of Section 6.1.

ARTICLE VIII
RIGHTS OF PARTICIPANTS AND BENEFICIARIES

8.1 Status as a Participant or Beneficiary. Neither status as a Participant or Beneficiary shall be construed as a commitment that any Reward will be paid or payable under the Plan.

8.2 Employment. Nothing contained in the Plan, or in any document related to the Plan or to any Reward, shall confer upon any Participant any right to continue as an employee or in the employ of the Company or an Affiliate or constitute any contract or agreement of employment for a specific term or interfere in any way with the right of the Company or an Affiliate to reduce such person's compensation, to change the position held by such person or to terminate the employment of such person, with or without cause.

8.3 Nontransferability. No benefit payable under, or interest in, this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, debts, contracts, liabilities or torts of any Participant or Beneficiary; provided, however, that, nothing in this Section 8.3 shall prevent transfer (i) by will, (ii) by applicable laws of descent and distribution, or (iii) pursuant to an order that satisfies the requirements for a "qualified domestic relations order" as such term is defined in section 206(d)(3)(B) of ERISA and section 414(p)(1)(A) of the Code, including an order that requires distributions to an alternate payee prior to a Participant's "earliest retirement age" as such term is defined in section 206(d)(3)(E)(ii) of ERISA and section 414(p)(4)(B) of the Code. Any attempt at transfer, assignment or other alienation prohibited by the preceding sentence shall be disregarded and all amounts payable hereunder shall be paid only in accordance with the provisions of the Plan.

8.4 Nature of Plan. No Participant, Beneficiary or other person shall have any right, title, or interest in any fund or in any specific asset of the Company or any Affiliate by reason of any Reward hereunder. There shall be no funding of any benefits which may become payable hereunder. Nothing contained in the Plan (or in any document related thereto), nor the creation or adoption of the Plan, nor any action taken pursuant to the provisions of the Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or an Affiliate and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment with respect to a Reward hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company or other employing entity, as applicable. All amounts payable under the Plan shall be paid from the general assets of the Company or employing entity, as applicable, and no special or separate fund or deposit shall be established and no segregation of assets shall be made to assure payment of such amounts. Nothing in the Plan shall be deemed to give any employee any right to participate in the Plan except in accordance herewith.

ARTICLE IX
CORPORATE CHANGE

Unless otherwise provided in an agreement pursuant to Section 11.4, in the event of a Corporate Change, (i) with respect to a Participant's Reward Opportunity for the Plan Year in which the Corporate Change occurred, such Participant shall be entitled to an immediate cash payment equal to the maximum amount of Reward he or she would have been entitled to receive for the Plan Year, prorated to the date of the Corporate Change; and (ii) with respect to a Corporate Change that occurs after the end of the Plan Year but prior to the Payment Date, a Participant shall be entitled to an immediate cash payment equal to the Reward earned for such Plan Year.

ARTICLE X
AMENDMENT AND TERMINATION

Notwithstanding anything herein to the contrary, the Committee may, at any time, terminate or, from time to time amend, modify or suspend the Plan; provided, however, that, without the prior consent of the Participants affected, no such action may adversely affect any rights or obligations with respect to any Rewards theretofore earned for a particular Plan Year, whether or not the amounts of such Rewards have been computed and whether or not such Rewards are then payable, subject to the Committee's express rights as set forth herein.

ARTICLE XI
MISCELLANEOUS

11.1 Governing Law. The Plan and all related documents shall be governed by, and construed in accordance with, the laws of the State of Texas, without giving effect to the principles of conflicts of law thereof, except to the extent preempted by federal law. The Federal Arbitration Act shall govern all matters with regard to arbitrability.

11.2 Severability. If any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

11.3 Successor. All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

11.4 Other Agreements. The terms of this Plan shall not modify and shall be subject to the terms and conditions of any employment, severance, and/or change-in-control agreement between the Company (or a Subsidiary) and a Participant, including, but not limited to, the requirement for a double-trigger to provide for payment in connection with a Corporate Change rather than a single-trigger. Further, to the extent an umbrella program is established solely to provide funding to the Plan for purposes of complying with Section 162(m) of the Code, any payments under any employment, severance, and/or change-in-control agreement that are calculated based on the target bonus opportunity under the Plan shall be based on the sub-Plan target bonus opportunity (without applying any positive discretion) and not the target bonus opportunity under the umbrella program.

11.5 Effective Date. The effective date of this restatement is January 1, 2011. This Plan shall be effective from and after such date, and shall remain in effect until such time as it may be terminated or amended pursuant to Article X.

Exhibit 10.3

KBR MANAGEMENT PERFORMANCE PAY PLAN

RESTATED JANUARY 1, 2011

INDEX

KBR MANAGEMENT PERFORMANCE PAY PLAN

The Compensation Committee hereby establishes this KBR Management Performance Pay Plan (the "Plan") effective January 1, 2011 (except as otherwise indicated in specific provisions of the Plan).

ARTICLE I
PURPOSE

The purpose of the KBR Management Performance Pay Plan (the "Plan") is to reward management and other key employees of the Company and its Affiliates for improving financial results which drive the creation of value for shareholders of the Company and thereby, serve to attract, motivate, reward, and retain high caliber employees required for the success of the Company. The Plan provides a means to link total and individual cash compensation to Company performance.

ARTICLE II
DEFINITIONS

2.1 Definitions. Where the following words and phrases appear in the Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary.

"Affiliate" shall mean a Subsidiary of the Company or a division or designated group of the Company or a Subsidiary.

"Base Salary" shall mean the Participant's annual base salary as determined on the first day of January during the applicable calendar year (or the first day an employee becomes eligible to participate in the Plan if such day occurs after the first day of January). For purposes of this calculation, Base Salary includes base salary a Participant could have received in cash in lieu of (i) contributions made on such Participant's behalf to a qualified plan maintained by the Company or to any cafeteria plan under Section 125 of the Code maintained by the Company and (ii) deferrals of compensation made at the Participant's election pursuant to a plan or arrangement of the Company or an Affiliate, but excluding any Rewards under this Plan and any other bonuses, incentive pay or special awards.

"Beneficiary" shall mean the person, persons, trust, or trusts entitled by will or the laws of descent and distribution to receive the benefits specified under the Plan in the event of the Participant's death prior to full payment of a Reward.

"Board of Directors" shall mean the Board of Directors of the Company.

"CEO" shall mean the Chief Executive Officer of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Common Stock" shall mean the common stock, par value $0.001 per share, of KBR, Inc.

"Compensation Committee" shall mean the Compensation Committee of Directors of the Company, appointed by the Board of Directors from among its members, no member of which shall be an employee of the Company or a Subsidiary.

"Company" shall mean KBR, Inc. and its successors.

"Corporate Change" shall mean one of the following events: (i) the merger, consolidation or other reorganization of the Company in which the outstanding Common Stock is converted into or exchanged for a different class of securities of the Company, a class of securities of any other issuer (except a direct or indirect wholly owned Subsidiary), cash or property; (ii) the sale, lease or exchange of all or substantially all of the assets of the Company to another corporation or entity (except a direct or indirect wholly owned Subsidiary); (iii) the adoption by the stockholders of the Company of a plan of liquidation and dissolution; (iv) the acquisition (other than any acquisition pursuant to any other clause of this definition) by any person or entity, including, without limitation, a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, of beneficial ownership, as contemplated by such Section, of more than twenty percent (based on voting power) of the Company's outstanding capital stock, *provided, however,* that, this clause (iv) shall not apply to the acquisition or beneficial ownership by Halliburton Company of the Company's outstanding capital stock so long as Halliburton Company is the beneficial owner of more than twenty percent (based on voting power) of the Company's outstanding capital stock, unless and until such time as Halliburton Company shall cease to be the beneficial owner of more than twenty percent (based on voting power) of the Company's outstanding capital stock and thereafter Halliburton Company, together with any persons or entities which could be included with Halliburton Company as a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, shall acquire beneficial ownership of more than twenty percent (based on voting power) of the Company's outstanding capital stock; or (v) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board.

"Dispute Resolution Program" shall mean the Halliburton Dispute Resolution Program or its successor, the KBR Dispute Resolution Program.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Key Employees" shall mean regular, full-time employees of the Company or an Affiliate below the Senior Executive (as defined in the KBR Senior Executive Performance Pay Plan) level, as determined by the CEO.

"Participant" shall mean any Key Employee who participates in the Plan pursuant to the provisions of Article III hereof. An employee shall not be eligible to participate in the Plan while on a leave of absence.

"Participant Category" shall mean a grouping of Participants determined in accordance with the applicable provisions of Article III.

"Payment Date" shall mean, with respect to a particular Plan Year, the date the Reward is actually paid, which shall be as soon as administratively practicable following the end of the applicable Plan Year, but in no event later than the March 15th following the applicable Plan Year.

"Performance Goals" shall mean, for a particular Plan Year, established levels of applicable Performance Measures.

"Performance Measures" shall mean the criteria used in determining Performance Goals for particular Participant Categories, which may include one or more of the performance measures identified in Article XI of the 2006 Plan. Performance Measures may vary from business unit to business unit and from Participant to Participant within a particular business unit as deemed appropriate.

"Plan" shall mean the KBR Management Performance Pay Plan restated effective January 1, 2011, and as the same may thereafter be amended from time to time.

"Plan Year" shall mean the calendar year ending each December 31.

"Reward" shall mean the dollar amount of incentive compensation payable to a Participant under the Plan for a Plan Year determined in accordance with Section 5.3.

"Reward Opportunity" shall mean, with respect to each Participant Category, incentive reward payment amounts, expressed as a percentage of Base Salary, which correspond to various levels of pre-established Performance Goals, determined pursuant to the Reward Schedule.

"Reward Schedule" shall mean the schedule which aligns the level of achievement of applicable Performance Goals with Reward Opportunities for a particular Plan Year, such that the level of achievement of the pre-established Performance Goals at the end of such Plan Year will determine the actual Reward.

"Subsidiary" shall mean at any given time, a company (whether a corporation, partnership, limited liability company or other form of entity) in which the Company or any other of its Subsidiaries or both owns, directly or indirectly, an aggregate equity interest of 50% or more.

2.2 Number. Wherever appropriate herein, words used in the singular shall be considered to include the plural, and words used in the plural shall be considered to include the singular.

2.3 Headings. The headings of Articles and Sections herein are included solely for convenience, and if there is any conflict between headings and the text of the Plan, the text shall control.

ARTICLE III
PARTICIPATION

3.1 Participants. Active employees, as designated annually as Participants by the CEO, or his delegate, prior to the last day of March each Plan Year, shall be Participants for such Plan Year.

3.2 Partial Plan Year Participation. If, after the beginning of the Plan Year, (i) a person is newly hired, promoted or transferred into a position in which he or she is a Key Employee, or (ii) an employee who was not previously a Participant for such Plan Year returns to active employment following a leave of absence and is a Key Employee, the CEO, or his delegate, may designate in writing such person as a Participant for the pro rata portion of such Plan Year beginning on the first day of the month following such designation.

If an employee who has previously been designated as a Participant for a particular Plan Year takes a leave of absence during such Plan Year, all of such Participant's rights to a Reward for such Plan Year shall be forfeited, unless the CEO, or his delegate, shall determine that such Participant's Reward for such Plan Year shall be prorated based upon that portion of the Plan Year during which he or she was an active Participant, in which case the prorated portion of the Reward shall be paid in accordance with the provisions of Section 6.1.

Each Participant shall be assigned to a Participant Category at the time he or she becomes a Participant for a particular Plan Year. If a Participant thereafter incurs a change in status due to promotion, demotion, reassignment or transfer, the CEO, or his delegate, may approve such adjustment in such Participant's Reward Opportunity as deemed appropriate under the circumstances (including termination of participation in the Plan for the remainder of the Plan Year), such adjustment to be made on a pro rata basis for the balance of the Plan Year effective with the first day of the month following such approval, unless some other effective date is specified. All such adjustments shall be documented in writing and filed with the Plan records for the applicable Plan Year.

3.3 No Right to Participate. No Participant or other employee of the Company or an Affiliate shall, at any time, have a right to participate in the Plan for any Plan Year, notwithstanding having previously participated in the Plan.

3.4 Plan Exclusive. No employee shall simultaneously participate in this Plan and in any other short-term incentive plan of the Company or an Affiliate unless such employee's participation in such other plan is approved by the CEO, or his delegate.

3.5 Consent to Dispute Resolution. Participation in the Plan constitutes consent by the Participant to be bound by the terms and conditions of the Dispute Resolution Program which in substance requires that all disputes arising out of or in any way related to employment with the Company or its Affiliates, including any disputes concerning the Plan, be resolved exclusively through such program, which includes binding arbitration as its last step.

ARTICLE IV
ADMINISTRATION

Each Plan Year, the basis for payments under the Plan in relation to given Performance Goals shall be established, as more fully described in Article V hereof, and, following the end of each Plan Year, the actual Reward payable to each Participant shall be determined. The CEO is authorized to construe and interpret the Plan, to prescribe, amend, and rescind rules, regulations, and procedures relating to its administration and to make all other determinations necessary or advisable for administration of the Plan. The CEO shall have such other authority as is expressly provided in the Plan. In addition, as permitted by law, the CEO may delegate his authority granted under the Plan as deemed appropriate; provided, however, that the CEO may not delegate his authority under Article V hereof. Decisions of the Compensation Committee and the CEO, or the CEO's delegates, in accordance with the authority granted hereby or delegated pursuant hereto, shall be conclusive and binding. Subject only to compliance with the express provisions hereof, the Compensation Committee, the CEO and the CEO's delegates may act in their sole and absolute discretion with respect to matters within their authority under the Plan.

ARTICLE V
REWARD DETERMINATIONS

5.1 Performance Measures. A combination of Performance Measures shall be used in determining Performance Goals for any Plan Year.

5.2 Performance Requirements. No later than the first 90 days after the commencement of each Plan Year, the CEO shall (i) determine the Performance Measures and (ii) establish a Reward Schedule which aligns the level of achievement of applicable Performance Goals with Reward Opportunities, such that the level of achievement of the pre-established Performance Goals at the end of the Plan Year will determine the actual Reward.

5.3 Reward Determinations. After the end of each Plan Year, the CEO shall determine the extent to which the Performance Goals have been achieved, and the amount of the Reward shall be computed for each Participant in accordance with the Reward Schedule.

5.4 Reward Opportunities. The established Reward Opportunities may vary in relation to the Participant Categories and within the Participant Categories. In the event a Participant changes Participant Categories during a Plan Year, the Participant's Reward Opportunities shall be adjusted in accordance with the applicable provisions of Section 3.2.

5.5 Discretionary Adjustments. Once established, Performance Goals will not be changed during the Plan Year. However, if the CEO, in his sole and absolute discretion, determines that there has been (i) a change in the business, operations, corporate, or capital structure, (ii) a change in the manner in which business is conducted, (iii) any incorrect assumptions, omissions, forecasting, or budgeting used in the initial establishment of the Performance Goals, or (iv) any other material change or event which will impact one or more Performance Goals in a manner the CEO did not intend, then the CEO may, reasonably contemporaneously with such change, incorrect forecasting or budgeting, or event, make such adjustment as he shall deem appropriate and equitable in the manner of computing the relevant Performance Measures applicable to such Performance Goal or Goals for the Plan Year. In addition, if, within a two-year period beginning on the date that a Reward is paid, the basis upon

which the Performance Goals were achieved for a Plan Year changes because of any material restatement of the Company's financial results for the same Plan Year, and the Reward is determined to be an overpayment based on such Plan Year's restated financial results, the CEO may, in his sole discretion, seek recovery of the amount of the Reward determined to be an overpayment or hold the overpayment as debit against future Rewards. Effective January 1, 2010, Rewards based on Performance Goals that are measured during 2010 or after and paid in 2011 or after shall be subject to the same clawback provision in the preceding sentence except that any clawback shall be based on a restatement of the Company's financial results instead of a material restatement of the Company's financial results. Notwithstanding the foregoing, the clawback in this Section 5.5 shall be automatically amended to meet any clawback policy adopted by the Company, including, but not limited to, any clawback policy adopted to satisfy the minimum clawback requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations thereunder or any other applicable law.

ARTICLE VI
DISTRIBUTION OF REWARDS

6.1 Form and Timing of Payment. Rewards shall be paid in a lump sum on the Payment Date. In the event of termination of a Participant's employment prior to the Payment Date for any reason other than death (in which case payment shall be made in accordance with the applicable provisions of Article VII), the amount of any Reward (or prorated portion thereof) payable pursuant to the provisions of Sections 7.1 or 7.2 shall be paid in cash on the Payment Date.

6.2 Elective Deferral. Nothing herein shall be deemed to preclude a Participant's election to defer receipt of a percentage of his or her Reward beyond the time such amount would have been payable hereunder pursuant to the KBR Elective Deferral Plan or other similar plan and in compliance with the requirements of Code Section 409A and related regulations and U.S. Department of Treasury pronouncements.

6.3 Tax Withholding. The Company or employing entity through which payment of a Reward is to be made shall have the right to deduct from any payment hereunder any amounts that Federal, state, local or foreign tax laws require with respect to such payments.

ARTICLE VII
TERMINATION OF EMPLOYMENT

7.1 Termination of Service During Plan Year. In the event a Participant's employment is terminated prior to the last business day of a Plan Year for any reason other than death, normal retirement at or after age 65, or disability (as determined under the Company's Long Term Disability Plan), all of such Participant's rights to a Reward for such Plan Year shall be forfeited, unless the CEO, or his delegate, shall determine that such Participant's Reward for such Plan Year shall be prorated based upon that portion of the Plan Year during which he or she was a Participant, in which case the prorated portion of the Reward shall be paid in accordance with the provisions of Section 6.1. In the case of death during the Plan Year, the prorated amount of such Participant's Reward shall be paid to the Participant's estate, or if there is no administration of the estate, to the heirs at law, on the Payment Date. In the case of disability or normal retirement at or after age 65, the prorated amount of a Participant's Reward shall be paid in accordance with the provisions of Section 6.1.

7.2 Termination of Service After End of Plan Year But Prior to the Payment Date. If a Participant's employment is terminated for any reason other than death, normal retirement at or after age 65, or disability (as determined under the Company's Long Term Disability Plan) after the end of the applicable Plan Year, but prior to the Payment Date, or if a Participant is employed but is not in good standing with the Company (or its Affiliates), as determined in the absolute and sole discretion of the CEO, on the Payment Date, all of such Participant's rights to a Reward for such Plan Year shall be forfeited. In the case of death after the end of the applicable Plan Year, but prior to the Payment Date, the amount of the Reward shall be paid to such Participant's estate, or if there is no administration of the estate, to the heirs at law, as soon as practicable, but not later than the Payment Date. In the case of disability or normal retirement at or after age 65 after the end of the applicable Plan Year, but prior to the Payment Date, or in the absolute and sole discretion of the CEO, the amount of the Reward then unpaid shall be paid to the Participant in accordance with the provisions of Section 6.1.

ARTICLE VIII
RIGHTS OF PARTICIPANTS AND BENEFICIARIES

8.1 Status as a Participant or Beneficiary. Neither status as a Participant or Beneficiary shall be construed as a commitment that any Reward will be paid or payable under the Plan.

8.2 Employment. Nothing contained in the Plan, or in any document related to the Plan or to any Reward, shall confer upon any Participant any right to continue as an employee or in the employ of the Company or an Affiliate or constitute any contract or agreement of employment for a specific term or interfere in any way with the right of the Company or an Affiliate to reduce such person's compensation, to change the position held by such person or to terminate the employment of such person, with or without cause.

8.3 Nontransferability. No benefit payable under, or interest in, this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, debts, contracts, liabilities or torts of any Participant or Beneficiary; provided, however, that, nothing in this Section 8.3 shall prevent transfer (i) by will, (ii) by applicable laws of descent and distribution, or (iii) pursuant to an order that satisfies the requirements for a "qualified domestic relations order" as such term is defined in section 206(d)(3)(B) of ERISA and section 414(p)(1)(A) of the Code, including an order that requires distributions to an alternate payee prior to a Participant's "earliest retirement age" as such term is defined in section 206(d)(3)(E)(ii) of ERISA and section 414(p)(4)(B) of the Code. Any attempt at transfer, assignment or other alienation prohibited by the preceding sentence shall be disregarded and all amounts payable hereunder shall be paid only in accordance with the provisions of the Plan.

8.4 Nature of Plan. No Participant, Beneficiary or other person shall have any right, title, or interest in any fund or in any specific asset of the Company or any Affiliate by reason of any Reward hereunder. There shall be no funding of any benefits which may become payable hereunder. Nothing contained in the Plan (or in any document related thereto), nor the creation or adoption of the Plan, nor any action taken pursuant to the provisions of the Plan shall create,

or be construed to create, a trust of any kind or a fiduciary relationship between the Company or an Affiliate and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment with respect to a Reward hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company or other employing entity, as applicable. All amounts payable under the Plan shall be paid from the general assets of the Company or employing entity, as applicable, and no special or separate fund or deposit shall be established and no segregation of assets shall be made to assure payment of such amounts. Nothing in the Plan shall be deemed to give any employee any right to participate in the Plan except in accordance herewith.

ARTICLE IX
CORPORATE CHANGE

Unless otherwise provided in an agreement pursuant to Section 11.4, in the event of a Corporate Change, (i) with respect to a Participant's Reward Opportunity for the Plan Year in which the Corporate Change occurred, such Participant shall be entitled to an immediate cash payment equal to the maximum amount of Reward he or she would have been entitled to receive for the Plan Year, prorated to the date of the Corporate Change; and (ii) with respect to a Reward earned for the previous Plan Year which has not been paid, such amount shall be paid in cash immediately.

ARTICLE X
AMENDMENT AND TERMINATION

Notwithstanding anything herein to the contrary, the Compensation Committee may, at any time, terminate or, from time to time amend, modify or suspend the Plan; provided, however, that, without the prior consent of the Participants affected, no such action may adversely affect any rights or obligations with respect to any Rewards theretofore earned for a particular Plan Year, whether or not the amounts of such Rewards have been computed and whether or not such Rewards are then payable.

ARTICLE XI
MISCELLANEOUS

11.1 Governing Law. The Plan and all related documents shall be governed by, and construed in accordance with, the laws of the State of Texas, without giving effect to the principles of conflicts of law thereof, except to the extent preempted by federal law.

11.2 Severability. If any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

11.3 Successor. All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

11.4 Other Agreements. The terms of this Plan shall not modify and shall be subject to the terms and conditions of any employment, severance, and/or change-in-control agreement between the Company (or a Subsidiary) and a Participant, including, but not limited to, the requirement for a double-trigger to provide for payment in connection with a Corporate Change rather than a single-trigger. Further, to the extent an umbrella program is established solely to provide funding to the Plan for purposes of complying with Section 162(m) of the Internal Revenue Code, any payments under any employment, severance, and/or change-in-control agreement that are calculated based on the target bonus opportunity under the Plan shall be based on the sub-Plan target bonus opportunity (without applying any positive discretion) and not the target bonus opportunity under the umbrella program.

11.5 Effective Date. The effective date of this restatement is January 1, 2011 (except as otherwise indicated in specific provisions of the Plan). This Plan shall be effective from and after such date, and shall remain in effect until such time as it may be terminated or amended pursuant to Article X.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William P. Utt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBR, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2011

/s/ William P. Utt

William P. Utt

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Susan K. Carter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBR, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2011

/s/ Susan K. Carter

Susan K. Carter
Chief Financial Officer

EXHIBIT 32.1

WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer of KBR, Inc. (the "Company"), hereby certifies that to his knowledge, on the date hereof:

(a) the Form 10-Q of the Company for the quarter ended March 31, 2011, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section l3(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William P. Utt

William P. Utt
Chief Executive Officer

Date: April 27, 2011

EXHIBIT 32.2

WRITTEN STATEMENT OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of KBR, Inc. (the "Company"), hereby certifies that to his knowledge, on the date hereof:

(a) the Form 10-Q of the Company for the quarter ended March 31, 2011, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section l3(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Susan K. Carter

Susan K. Carter
Chief Financial Officer

Date: April 27, 2011