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 September 30, 2019

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: 001-33146

KBR, Inc.

(*Exact name of registrant as specified in its charter*)

Delaware	**20-4536774**
(*State of incorporation*)	**(*I.R.S. Employer Identification No.*)**

601 Jefferson Street, Suite 3400	**Houston**	**Texas**	**77002**
(Address of principal executive offices)			***(Zip Code)***

(713) 753-2000
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which listed
Common Stock, $0.001 par value	KBR	New York Stock Exchange

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 the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 23, 2019, there were 141,714,130 shares of KBR, Inc. Common Stock, par value $0.001 per share, outstanding.

TABLE OF CONTENTS

Forward-Looking and Cautionary Statements

This Quarterly Report on Form 10-Q 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 Exchange Act, 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 on Form 10-Q 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 2018 Annual Report on Form 10-K contained in Part I under "Risk Factors" and the risk factors and other cautionary statements contained in our other filings with the SEC.

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.

Glossary of Terms

The following frequently used terms, abbreviations or acronyms are used in this Quarterly Report on Form 10-Q as defined below:

Acronym	Definition
AFCAP	Air Force Contract Augmentation Program
Affinity	Affinity Flying Training Services Ltd.
AOCL	Accumulated other comprehensive loss
ASBCA	Armed Services Board of Contract Appeals
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Carillion	Carillion plc
CAS	Cost Accounting Standards for U.S. government contracts
COFC	U.S. Court of Federal Claims
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DoD	Department of Defense
DOJ	U.S. Department of Justice
EBIC	Egypt Basic Industries Corporation
EPC	Engineering, procurement and construction
ES	Energy Solutions
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FAR	Federal Acquisition Regulation
FASB	Financial Accounting Standards Board
FCA	False Claims Act
FKTC	First Kuwaiti Trading Company
FLNG	Floating liquefied natural gas
FPSO	Floating production, storage and offshore
FPUs	Floating production units
FSRU	Floating storage and regasification unit
GS	Government Solutions
GTL	Gas to liquids
HETs	Heavy equipment transporters
IT	Information and Technology
JKC	JKC Australia LNG, an Australian joint venture executing the Ichthys LNG Project
LIBOR	London interbank offered rate
LNG	Liquefied natural gas
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations (Part I, Item 2 of this Quarterly Report on Form 10-Q)
MFRs	Memorandums for Record
MoD	Ministry of Defence
NCI	Noncontrolling interests
PFIs	Private financed initiatives and projects
PIC	Paid-in capital in excess of par
PLOC	Performance Letter of Credit facility
PSC	Private Security Contractor

Acronym	Definition
SEC	U.S. Securities and Exchange Commission
SFO	U.K. Serious Fraud Office
SGT	Stinger Ghaffarian Technologies
SMS	Space and Mission Solutions
TS	Technology Solutions
U.K.	United Kingdom
U.S.	United States
U.S. GAAP	Accounting principles generally accepted in the United States
VIEs	Variable interest entities

PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues	$ 1,425	$ 1,278	$ 4,187	$ 3,583
Cost of revenues	(1,256)	(1,129)	(3,705)	(3,156)
Gross profit	**169**	**149**	**482**	**427**
Equity in earnings of unconsolidated affiliates	9	17	24	50
Selling, general and administrative expenses	(75)	(64)	(241)	(207)
Acquisition and integration related costs	—	(1)	(2)	(5)
Gain on disposition of assets and investments	1	—	11	—
Gain on consolidation of Aspire subcontracting entities	—	(2)	—	113
Operating income	**104**	**99**	**274**	**378**
Interest expense	(25)	(20)	(76)	(43)
Other non-operating income (loss)	3	(1)	10	(4)
Income before income taxes and noncontrolling interests	**82**	**78**	**208**	**331**
Provision for income taxes	(24)	(22)	(58)	(74)
Net income	**58**	**56**	**150**	**257**
Net income attributable to noncontrolling interests	(2)	(2)	(6)	(23)
Net income attributable to KBR	**$ 56**	**$ 54**	**$ 144**	**$ 234**
Net income attributable to KBR per share:				
Basic	$ 0.39	$ 0.38	$ 1.01	$ 1.66
Diluted	$ 0.39	$ 0.38	$ 1.01	$ 1.66
Basic weighted average common shares outstanding	**141**	**141**	**141**	**140**
Diluted weighted average common shares outstanding	**142**	**141**	**141**	**141**
Cash dividends declared per share	**$ 0.08**	**$ 0.08**	**$ 0.24**	**$ 0.24**
Net income	**$ 58**	**$ 56**	**$ 150**	**$ 257**
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of taxes of $(1), $0, $(1) and $(3)	(34)	(9)	(48)	(29)
Pension and post-retirement benefits, net of taxes of $(1), $(1), $(3) and $(3)	4	5	11	18
Changes in fair value of derivatives, net of taxes of $3, $0, $3 and $0	2	—	(7)	(5)
Total other comprehensive loss	**(28)**	**(4)**	**(44)**	**(16)**
Comprehensive income	**30**	**52**	**106**	**241**
Less: Comprehensive income attributable to noncontrolling interests	(2)	(2)	(6)	(23)
Comprehensive income attributable to KBR	**$ 28**	**$ 50**	**$ 100**	**$ 218**

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Current assets:		
Cash and equivalents	$ 681	$ 739
Accounts receivable, net of allowance for doubtful accounts of $12 and $9	1,038	927
Contract assets	235	185
Other current assets	153	108
Total current assets	**2,107**	**1,959**
Claims and accounts receivable	104	98
Property, plant, and equipment, net of accumulated depreciation of $375 and $355 (including net PPE of $29 and $35 owned by a variable interest entity)	109	121
Operating lease right-of-use assets	183	—
Goodwill	1,261	1,265
Intangible assets, net of accumulated amortization of $174 and $151	489	516
Equity in and advances to unconsolidated affiliates	793	724
Deferred income taxes	220	222
Other assets	136	147
Total assets	**$ 5,402**	**$ 5,052**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 624	$ 546
Contract liabilities	536	463
Accrued salaries, wages and benefits	249	221
Nonrecourse project debt	10	10
Operating lease liabilities	42	—
Other current liabilities	191	179
Total current liabilities	**1,652**	**1,419**
Pension obligations	192	250
Employee compensation and benefits	108	109
Income tax payable	85	84
Deferred income taxes	29	27
Nonrecourse project debt	11	17
Long-term debt	1,185	1,226
Operating lease liabilities	201	—
Other liabilities	122	202
Total liabilities	**3,585**	**3,334**
KBR shareholders' equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, $0.001 par value 300,000,000 shares authorized, 178,244,609 and 177,383,302 shares issued, and 141,706,294 and 140,900,032 shares outstanding, respectively	—	—
PIC	2,202	2,190
Retained earnings	1,366	1,235
Treasury stock, 36,538,315 shares and 36,483,270 shares, at cost, respectively	(817)	(817)
AOCL	(954)	(910)
Total KBR shareholders' equity	**1,797**	**1,698**
Noncontrolling interests	20	20
Total shareholders' equity	**1,817**	**1,718**
Total liabilities and shareholders' equity	**$ 5,402**	**$ 5,052**

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 150	$ 257
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	76	47
Equity in earnings of unconsolidated affiliates	(24)	(50)
Deferred income tax expense	—	29
Gain on disposition of assets and investments	(11)	—
Gain on consolidation of Aspire subcontracting entities	—	(113)
Other	20	13
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(123)	(144)
Contract assets	(52)	(4)
Accounts payable	83	72
Contract liabilities	82	(63)
Accrued salaries, wages and benefits	31	18
Payments from unconsolidated affiliates, net	9	7
Distributions of earnings from unconsolidated affiliates	64	16
Pension funding	(31)	(30)
Other assets and liabilities	(75)	(19)
Total cash flows provided by operating activities	**$ 199**	**$ 36**
Cash flows from investing activities:		
Purchases of property, plant and equipment	$ (10)	$ (15)
Proceeds from disposition of assets and investments	8	1
Investments in equity method joint ventures	(146)	(257)
Acquisition of businesses, net of cash acquired	—	(354)
Adjustments to cash due to consolidation of Aspire subcontracting entities	—	197
Total cash flows used in investing activities	**$ (148)**	**$ (428)**

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from financing activities:		
Payments to reacquire common stock	$ (4)	$ (3)
Acquisition of remaining ownership interest in joint ventures	—	(56)
Distributions to noncontrolling interests	(6)	—
Payments of dividends to shareholders	(34)	(34)
Net proceeds from issuance of common stock	3	2
Borrowings on revolving credit agreements	—	250
Borrowings on long-term debt	—	1,052
Payments on revolving credit agreements	—	(605)
Payments on short-term and long-term borrowings	(54)	(7)
Debt issuance costs	—	(47)
Other	(2)	—
Total cash flows (used in) provided by financing activities	**$ (97)**	**$ 552**
Effect of exchange rate changes on cash	(12)	(18)
(Decrease) increase in cash and equivalents	(58)	142
Cash and equivalents at beginning of period	739	439
Cash and equivalents at end of period	**$ 681**	**$ 581**
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 54	$ 34
Cash paid for income taxes (net of refunds)	$ 47	$ 20
Noncash financing activities		
Dividends declared	$ 11	$ 11

See accompanying notes to condensed consolidated financial statements.

Note 1. Description of Company and Significant Accounting Policies

KBR, Inc., a Delaware corporation, was formed on March 21, 2006, and is headquartered in Houston, Texas. KBR, Inc. and its wholly owned and majority-owned subsidiaries (collectively referred to herein as "KBR", the "Company", "we", "us" or "our") is a global provider of differentiated, professional services and technologies across the asset and program life-cycle within the government services and hydrocarbons industries. Our capabilities include research and development, feasibility and solutions development, specialized technical consulting, systems integration, engineering and design service, process technologies, program management, construction services, commissioning and startup services, highly specialized mission and logistics support solutions, and asset operations and maintenance services and other support services to a diverse customer base, including government and military organizations of the U.S., U.K. and Australia and a wide range of customers across the hydrocarbons value chain.

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by general accepted accounting principles for annual financial statements and should be read together with our 2018 Annual Report on Form 10-K.

The condensed consolidated financial statements include all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2019 and the results of our operations for the three and nine months ended September 30, 2019 and 2018, and our cash flows for the nine months ended September 30, 2019 and 2018.

Our significant accounting policies are detailed in "Note 1. Description of Company and Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2018.

We have evaluated all events and transactions occurring after the balance sheet date but before the financial statements were issued and have included the appropriate disclosures.

Principles of Consolidation

Our condensed consolidated financial statements include the accounts of KBR and our wholly owned and majority-owned subsidiaries and VIEs of which we are the primary beneficiary. We account for investments over which we have significant influence but not a controlling financial interest using the equity method of accounting. See Note 10 to our condensed consolidated financial statements for further discussion on our equity investments and VIEs. The cost method is used when we do not have the ability to exert significant influence. All material intercompany transactions are eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in our condensed consolidated statements of operations. We have elected to classify certain indirect costs incurred as overhead (included in "Cost of revenues") or general administrative expenses for U.S. GAAP reporting purposes in the same manner as such costs are defined in our disclosure statements under CAS. Effective January 1, 2019, we established a new CAS structure and revised our disclosure statements accordingly to reflect the related cost accounting practice changes. Consequently, for the three and nine months ended September 30, 2018, $27 million and $94 million, respectively, was reclassified from "Cost of revenues" to "Selling, general and administrative expenses" on our condensed consolidated statement of operations.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
Dollars in millions	**As Reported**	**As Previously Reported**	**As Reported**	**As Previously Reported**
Statement of Operations				
Cost of revenues	$ (1,129)	$ (1,156)	$ (3,156)	$ (3,250)
Selling, general and administrative expenses	(64)	(37)	(207)	(113)

Business Reorganization

Effective January 1, 2019, we changed the name of our Government Services segment to "Government Solutions", our Technology segment to "Technology Solutions" and our Hydrocarbons Services segment to "Energy Solutions". The change did not have an impact on our reportable segments.

As of January 1, 2019, our segments consist of the following five reportable segments:

- Government Solutions
- Technology Solutions
- Energy Solutions
- Non-strategic Business
- Other

See Note 2 to our condensed consolidated financial statements for further discussion on our segments. We have presented our segment results reflecting these changes for all periods presented. In conjunction with the change in segments, we evaluated goodwill associated with each of our reporting units using Level 3 fair value inputs, and no impairment indicators were identified.

Impact of Adoption of New Accounting Standards

Effective January 1, 2019, we adopted ASU No. 2016-02, Leases (Topic 842) and related ASUs using the modified retrospective transition approach. The modified retrospective transition approach provides for an “effective date” method for recording leases that existed or were entered into on or after January 1, 2019, without restating prior-period information. Our unconsolidated joint ventures anticipate adopting the new lease standard effective January 1, 2020.

ASC Topic 842 provided several optional practical expedients for use in transition. We elected to use the package of practical expedients which allowed us to not reassess our previous conclusions about lease identification, lease classification and the accounting treatment for initial direct costs. We did not elect the practical expedient pertaining to the use of hindsight.

The most significant effects of the new standard on our consolidated financial statements are the recognition of new operating lease right-of-use ("ROU") assets and operating lease liabilities on our consolidated balance sheet for operating leases as well as significant new disclosures about our leasing activities as further discussed in Note 16. On January 1, 2019, we recorded “Operating lease liabilities” of approximately $253 million based on the present value of the remaining lease payments over the lease term. Additionally, we reclassified current and noncurrent deferred rent of $68 million associated with straight-line accounting and tenant incentives related to existing real estate leases against the initial "Operating lease right-of-use assets" as of January 1, 2019. The adoption of the new standard did not have a material impact on our results of operations or cash flows.

As a result of the adoption, we recorded a cumulative-effect adjustment to retained earnings of $21 million, net of deferred taxes of $7 million, representing the unamortized portion of a deferred gain previously recorded in conjunction with the 2012 sale and leaseback of the office building in Houston, Texas where our corporate headquarters is located. We concluded the transaction resulted in the transfer of control of the office building to the buyer-lessor at market terms and therefore would have qualified as a sale under ASC Topic 842 with gain recognition in the period in which the sale was recognized.

We recognized the cumulative effect of initially applying ASC Topic 842 as an adjustment to our assets and liabilities in our consolidated balance sheet as of January 1, 2019, as follows:

Dollars in millions	Balance at December 31, 2018	Adjustments Due to ASC 842	Balance at January 1, 2019
Assets			
Operating lease right-of-use asset	$ —	$ 185	$ 185
Other current assets	108	(1)	107
Deferred income taxes	222	(7)	215
Liabilities			
Operating lease liabilities	—	40	40
Other current liabilities	179	(5)	174
Operating lease liabilities (noncurrent)	—	213	213
Other liabilities (noncurrent)	202	(92)	110
Shareholders' equity			
Retained Earnings	1,235	21	1,256

Effective January 1, 2019, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedge Activities, using the modified retrospective approach. This ASU is intended to improve and simplify accounting rules related to hedge accounting. The adoption of this ASU did not have a material impact to our financial statements.

Effective January 1, 2019, we adopted ASU No. 2018-16, Inclusion of the Secured Overnight Financing Rate Overnight Index Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. As a result, entities may designate changes in this rate as the hedged risk in hedges of interest rate risk for fixed-rate financial instruments. The adoption of ASU 2018-16 did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2019, we adopted ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). Under the new standard, we did not elect to reclassify the income tax effects stranded in AOCL to retained earnings as a result of the enactment of comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act of 2017. Therefore, the adoption of this ASU had no impact on financial statements.

In August 2018, the SEC adopted the final rules under SEC Release No. 33-10532, Disclosure Update and Simplification. The final rules amend the interim financial statement requirements to require a reconciliation of changes in stockholders' equity in the notes or as a separate statement. The analysis should reconcile the beginning and ending balances of each caption in stockholders' equity for each period in which an income statement is presented. The final rules were effective on November 5, 2018. See Note 17 for the reconciliation of shareholders' equity.

Additional Balance Sheet Information

Other Current Liabilities

The components of "Other current liabilities" on our condensed consolidated balance sheets as of September 30, 2019, and December 31, 2018, are presented below:

Dollars in millions	September 30, 2019	December 31, 2018
Current maturities of long-term debt	$ 27	$ 22
Retainage payable	37	33
Income taxes payable	28	30
Value-added tax payable	47	33
Dividend payable	11	11
Other miscellaneous liabilities	41	50
Total other current liabilities	$ 191	$ 179

Other Liabilities

"Other liabilities" on our condensed consolidated balance sheet as of December 31, 2018 included deferred rent primarily related to real-estate leases as well as the unamortized portion of a deferred gain related to a 2012 sale-leaseback real-estate transaction totaling $92 million. See above under "*Impact of Adoption of New Accounting Standards*" for further discussion.

Note 2. Business Segment Information

We are organized into three core business segments Government Solutions, Technology Solutions, and Energy Solutions and two non-core business segments as described below:

Government Solutions. Our GS business segment provides full life-cycle support solutions to defense, space, aviation and other programs and missions for military and other government agencies in the U.S., U.K. and Australia. As program management integrator, KBR covers the full spectrum of defense, space, aviation and other government programs and missions from research and development; through systems engineering, test and evaluation, systems integration and program management; to operations support, maintenance and field logistics. Our acquisitions as described in Note 4 to our condensed consolidated financial statements have been combined with our existing operations within this business segment.

Technology Solutions. Our TS business segment combines KBR's proprietary technologies, equipment and catalyst supply and associated knowledge-based services into a global business for refining, petrochemicals, inorganic and specialty chemicals as well as gasification, syngas, ammonia, nitric acid and fertilizers. From early planning through scope definition, advanced technologies and project life-cycle support, our TS business segment works closely with customers to provide the optimal approach to maximize their return on investment.

Energy Solutions. Our ES business segment provides comprehensive project and program delivery capability globally. Our key capabilities leverage our operational and technical excellence as a global provider of EPC for onshore oil and gas; LNG/GTL; oil refining; petrochemicals; chemicals; fertilizers; offshore oil and gas (shallow-water, deep-water and subsea); floating solutions (FPUs, FPSO, FLNG & FSRU); maintenance services; and consulting services.

Non-strategic Business. Our Non-strategic Business segment represents the operations or activities we determine are no longer core to our business strategy and that we have exited or intend to exit upon completion of existing contracts. All Non-Strategic Business projects are substantially complete. Current activities in this business segment primarily relate to final project close-out, negotiation and settlement of claims, joint venture liquidation and various other matters associated with these projects.

Effective for the quarter ended September 30, 2019, we reported the results of joint venture operations related to a project in Latin America within our Non-strategic Business segment. The reclassification results from our decision during the quarter to wind down the operating activities of the joint venture and exit the business. Equity in earnings of unconsolidated affiliates related to this joint venture were previously reported in our Energy Solutions business segment and were $0 million and a loss of $13 million for the three and nine months ended September 30, 2019, respectively, and income of $2 million and a loss of $4 million for the three and nine months ended September 30, 2018, respectively.

Other. Our Other segment includes corporate expenses and selling, general and administrative expenses not allocated to the business segments above.

The following table presents revenues, gross profit (loss), equity in earnings of unconsolidated affiliates, selling, general and administrative expenses, acquisition and integration related costs, gain on disposition of assets, gain of consolidation of Aspire entities, and operating income (loss) by reporting segment.

Operations by Reportable Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Dollars in millions				
Revenues:				
Government Solutions	$ 978	$ 928	$ 2,986	$ 2,473
Technology Solutions	96	81	281	215
Energy Solutions	351	268	919	894
Subtotal	1,425	1,277	4,186	3,582
Non-strategic Business	—	1	1	1
Total revenues	$ 1,425	$ 1,278	$ 4,187	$ 3,583
Gross profit (loss):				
Government Solutions	$ 110	$ 98	$ 312	$ 253
Technology Solutions	30	29	83	77
Energy Solutions	22	27	80	102
Subtotal	162	154	475	432
Non-strategic Business	7	(5)	7	(5)
Total gross profit	$ 169	$ 149	$ 482	$ 427
Equity in earnings of unconsolidated affiliates:				
Government Solutions	$ 7	$ 8	$ 21	$ 22
Energy Solutions	2	7	16	32
Subtotal	9	15	37	54
Non-strategic Business	—	2	(13)	(4)
Total equity in earnings of unconsolidated affiliates	$ 9	$ 17	$ 24	$ 50
Selling, general and administrative expenses:				
Government Solutions	$ (28)	$ (30)	$ (93)	$ (79)
Technology Solutions	(7)	(6)	(21)	(18)
Energy Solutions	(15)	(10)	(47)	(50)
Other	(25)	(18)	(80)	(60)
Subtotal	(75)	(64)	(241)	(207)
Non-strategic Business	—	—	—	—
Total selling, general and administrative expenses	$ (75)	$ (64)	$ (241)	$ (207)
Acquisition and integration related costs:				
Government Solutions	$ —	$ (1)	$ (2)	$ (5)
Technology Solutions	—	—	—	—
Energy Solutions	—	—	—	—
Other	—	—	—	—
Subtotal	—	(1)	(2)	(5)

Dollars in millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Non-strategic Business	—	—	—	—
Total acquisition and integration related costs	$ —	$ (1)	$ (2)	$ (5)
Gain on disposition of assets:				
Government Solutions	$ —	$ —	$ 11	$ —
Technology Solutions	—	—	—	—
Energy Solutions	—	—	—	—
Other	1	—	—	—
Subtotal	1	—	11	—
Non-strategic Business	—	—	—	—
Total gain on disposition of assets	$ 1	$ —	$ 11	$ —
Gain on consolidation of Aspire entities:				
Government Solutions	$ —	$ (2)	$ —	$ 118
Technology Solutions	—	—	—	—
Energy Solutions	—	—	—	—
Other	—	—	—	(5)
Subtotal	—	(2)	—	113
Non-strategic Business	—	—	—	—
Total gain on consolidation of Aspire entities	$ —	$ (2)	$ —	$ 113
Segment operating income (loss):				
Government Solutions	$ 89	$ 73	$ 249	$ 309
Technology Solutions	23	23	62	59
Energy Solutions	9	23	49	84
Other	(24)	(17)	(80)	(65)
Subtotal	97	102	280	387
Non-strategic Business	7	(3)	(6)	(9)
Total segment operating income (loss)	$ 104	$ 99	$ 274	$ 378

Changes in Project-related Estimates

There are many factors that may affect the accuracy of our cost estimates and ultimately our future profitability. These include, but are not limited to, the availability and costs of resources (such as labor, materials and equipment), productivity and weather, and for unit rate and construction service contracts, the availability and detail of customer supplied engineering drawings. With a portfolio of more than one thousand contracts, we sometimes realize both lower and higher than expected margins on projects in any given period. We recognize revisions of revenues and costs in the period in which the revisions are known. This may result in the recognition of costs before the recognition of related revenue recovery, if any.

Note 3. Revenue

We disaggregate our revenue from customers by type of service, geographic destination and contract type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Revenue by Service/Product line and reportable segment was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in millions	2019	2018	2019	2018
By Service / Product Types				
Government Solutions				
Space and Mission Solutions	$ 228	$ 206	$ 650	$ 453
Engineering	293	292	887	846
Logistics	457	430	1,449	1,174
Total Government Solutions	978	928	2,986	2,473
Technology Solutions	96	81	281	215
Energy Solutions				
EPC Delivery Projects	113	86	267	344
Services and Consulting	238	182	652	550
Total Energy Solutions	351	268	919	894
Non-strategic business	—	1	1	1
Total net revenue	$ 1,425	$ 1,278	$ 4,187	$ 3,583

Government Solutions revenue earned from key U.S. government customers including U.S. DoD agencies and NASA was $745 million and $717 million for the three months ended September 30, 2019 and 2018, respectively, and $2.3 billion and $1.8 billion for the nine months ended September 30, 2019 and 2018, respectively. Government Solutions revenue earned from non-U.S. government customers including the U.K. MoD, the Australian Defence Force and others was $233 million and $211 million for the three months ended September 30, 2019 and 2018, respectively, and $670 million and $627 million for the nine months ended September 30, 2019 and 2018, respectively.

Revenue by geographic destination was as follows:

Total by Countries/Regions *Dollars in millions*	Three Months Ended September 30, 2019				
	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
United States	$ 561	$ 19	$ 146	$ —	$ 726
Middle East	159	3	61	—	223
Europe	205	17	50	—	272
Australia	23	1	50	—	74
Canada	1	1	12	—	14
Africa	17	7	22	—	46
Asia	—	48	2	—	50
Other countries	12	—	8	—	20
Total net revenue	$ 978	$ 96	$ 351	$ —	$ 1,425

Total by Countries/Regions *Dollars in millions*	Three Months Ended September 30, 2018				
	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
United States	$ 484	$ 2	$ 113	$ 1	$ 600
Middle East	200	1	36	—	237
Europe	197	13	39	—	249
Australia	16	—	54	—	70
Canada	—	—	2	—	2
Africa	20	8	10	—	38
Asia	—	54	5	—	59
Other countries	11	3	9	—	23
Total net revenue	$ 928	$ 81	$ 268	$ 1	$ 1,278

Total by Countries/Regions *Dollars in millions*	Nine Months Ended September 30, 2019				
	Government Solutions	**Technology Solutions**	**Energy Solutions**	**Non-strategic Business**	**Total**
United States	$ 1,635	$ 29	$ 357	$ 1	$ 2,022
Middle East	598	11	163	—	772
Europe	586	51	138	—	775
Australia	67	1	149	—	217
Canada	1	1	19	—	21
Africa	57	25	59	—	141
Asia	—	161	5	—	166
Other countries	42	2	29	—	73
Total net revenue	$ 2,986	$ 281	$ 919	$ 1	$ 4,187

Total by Countries/Regions *Dollars in millions*	Nine Months Ended September 30, 2018				
	Government Solutions	**Technology Solutions**	**Energy Solutions**	**Non-strategic Business**	**Total**
United States	$ 1,229	$ 12	$ 364	$ 1	$ 1,606
Middle East	548	12	97	—	657
Europe	561	34	137	—	732
Australia	44	1	221	—	266
Canada	—	2	17	—	19
Africa	58	20	16	—	94
Asia	—	129	11	—	140
Other countries	33	5	31	—	69
Total net revenue	$ 2,473	$ 215	$ 894	$ 1	$ 3,583

Many of our contracts contain both fixed price and cost reimbursable components. We define contract type based on the component that represents the majority of the contract. Revenue by contract type was as follows:

Dollars in millions	Three Months Ended September 30, 2019				
	Government Solutions	**Technology Solutions**	**Energy Solutions**	**Non-strategic Business**	**Total**
Fixed Price	$ 286	$ 93	$ 83	$ —	$ 462
Cost Reimbursable	692	3	268	—	963
Total net revenue	$ 978	$ 96	$ 351	$ —	$ 1,425

Dollars in millions	Three Months Ended September 30, 2018				
	Government Solutions	**Technology Solutions**	**Energy Solutions**	**Non-strategic Business**	**Total**
Fixed Price	$ 268	$ 80	$ 38	$ 1	$ 387
Cost Reimbursable	660	1	230	—	891
Total net revenue	$ 928	$ 81	$ 268	$ 1	$ 1,278

	Nine Months Ended September 30, 2019				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
Fixed Price	$ 842	$ 276	$ 171	$ 1	$ 1,290
Cost Reimbursable	2,144	5	748	—	2,897
Total net revenue	$ 2,986	$ 281	$ 919	$ 1	$ 4,187

	Nine Months Ended September 30, 2018				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
Fixed Price	$ 769	$ 207	$ 142	$ 1	$ 1,119
Cost Reimbursable	1,704	8	752	—	2,464
Total net revenue	$ 2,473	$ 215	$ 894	$ 1	$ 3,583

We recognized revenue from performance obligations satisfied in previous periods of $1 million and $23 million for the three months ended September 30, 2019 and 2018, respectively, and $14 million, and $54 million for the nine months ended September 30, 2019 and 2018, respectively.

On September 30, 2019, we had $11.2 billion of transaction price allocated to remaining performance obligations. We expect to recognize approximately 36% of our remaining performance obligations as revenue within one year, 33% in years two through five, and 31% thereafter. Revenue associated with our remaining performance obligations to be recognized beyond one year includes performance obligations related to Aspire Defence and Fasttrax projects, which have contract terms extending through 2041 and 2023, respectively. The balance of remaining performance obligations does not include variable consideration that was determined to be constrained as of September 30, 2019.

We adopted ASU No. 2014-09 (ASC Topic 606), Revenue from Contracts with Customers and related ASUs in the first quarter of 2018. See the 2018 10-K for a further discussion of the adoption and the impact on our financial statements. In accordance with ASU No. 2017-13, certain of our unconsolidated joint ventures will adopt ASC Topic 606 in the fourth quarter of 2019. Currently, we are evaluating the impact of this adoption by performing a detailed review of representative contracts and comparing the historical accounting policies and practices of our unconsolidated joint ventures to the new standard. While we are still evaluating the potential impact, we currently believe the areas that may impact our joint ventures the most include determining which goods and services are distinct and represent separate performance obligations, accounting for variable consideration, and the manner in which the unit of account for projects are determined. These concepts, as well as other aspects of the guidance, may change the method and/or timing of revenue recognition by our unconsolidated joint ventures which in turn could impact our results recognized for these investments under the equity method of accounting. In the fourth quarter of 2019, we will recognize the impact of the adoption of the new standard by our unconsolidated joint ventures effective January 1, 2019. Our intent is to apply the modified retrospective method of adoption with the cumulative effect of adoption recognized at the date of initial application for uncompleted contracts.

Note 4. Acquisitions, Dispositions and Other Transactions

Stinger Ghaffarian Technologies Acquisition

On April 25, 2018, we acquired 100% of the outstanding stock of SGT. SGT is a leading provider of high-value engineering, mission operations, scientific and IT software solutions in the government services market. We accounted for this transaction using the acquisition method under ASC 805, *Business Combinations*. The acquisition is reported within our GS business segment. Aggregate base consideration for the acquisition was $355 million, plus $10 million of working capital and other purchase price adjustments set forth in the purchase agreement. We recognized goodwill of $257 million arising from the acquisition.

We recognized direct, incremental costs related to this acquisition of $0 million and $2 million during the three and nine months ended September 30, 2019, respectively, and $1 million and $4 million during the three and nine months ended September 30, 2018, respectively. These costs are included in "Acquisition and integration related costs" on the condensed consolidated statements of operations.

The acquired SGT business contributed $122 million and $365 million of revenues, and $15 million and $35 million of gross profit for the three and nine months ended September 30, 2019, respectively. For the three and nine months ended September 30, 2018, the SGT business contributed $126 million and $216 million of revenues, and $12 million and $19 million of gross profit, respectively.

Consolidation of Aspire Defence Subcontracting Entities

On January 15, 2018, Carillion, our U.K. partner in the joint ventures that provide the construction and related support services to Aspire Defence Limited, entered into compulsory liquidation and ceased performing services for the project. In accordance with the commercial arrangements of the project company and its lenders, Carillion was excluded from future business and benefit from its interest in the project and we assumed operational management and control of the subcontracting entities.

As a result of Carillion's compulsory liquidation, KBR was deemed the primary beneficiary as it has the power to direct activities having the most significant impact on the economic performance of the subcontracting entities. Consequently, KBR began consolidating these entities in its financial statements effective January 15, 2018. We accounted for these transactions under the acquisition method of accounting for business combinations in accordance ASC 805 and recognized a gain of approximately $113 million included in "Gain on consolidation of Aspire subcontracting entities" as a result of remeasuring our equity interests in each of the subcontracting entities to fair value. We also recognized goodwill of approximately $42 million.

On April 18, 2018, we completed the acquisition of Carillion's interests in the subcontracting entities for $50 million pursuant to a share and business purchase agreement and approval by Aspire Defence Limited, the Aspire Defence Limited project lenders and the MoD. We accounted for the change in KBR's interest as an equity transaction. The difference between the noncontrolling interests of $124 million in the subcontracting entities at the date of acquisition and the cash consideration paid to Carillion was recognized as a net increase to "PIC" of $74 million. We incurred acquisition-related costs of $0 million and $1 million for the three and nine months ended September 30, 2018, which were recorded in "Acquisition and integration related costs" on our condensed consolidated statements of operations. No acquisition-related costs were recorded for the three and nine months ended September 30, 2019.

The results of operations of the subcontracting entities have been included in our condensed consolidated statements of operations for periods subsequent to assuming control on January 15, 2018. The acquired subcontracting entities contributed $138 million and $405 million of revenues, and $17 million and $49 million of gross profit for the three and nine months ended September 30, 2019, respectively, and contributed $138 million and $387 million of revenues and $14 million and $42 million of gross profit for the three and nine months ended September 30, 2018, respectively, within our GS business segment.

The following supplemental pro forma condensed consolidated results of operations assume that SGT and the Aspire Defence subcontracting entities had been acquired as of January 1, 2017. The supplemental pro forma information was prepared based on the historical financial information of SGT and the Aspire Defence subcontracting entities and has been adjusted to give effect to pro forma adjustments that are both directly attributable to the transaction and factually supportable. Pro forma adjustments were primarily related to the amortization of intangibles, interest on borrowings related to the acquisitions, and the reclassification of the gain on consolidation of the Aspire entities to January 1, 2017. Accordingly, this supplemental pro forma financial information is presented for informational purposes only and is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisitions occurred on January 1, 2017, nor is it indication of future results of operations.

	Three Months Ended September 30,	Nine Months Ended September 30,
	2018	2018
Dollars in millions		
Revenue	$ 1,278	$ 3,730
Net income attributable to KBR	58	144
Diluted earnings per share	$ 0.41	$ 1.01

Note 5. Cash and Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and equivalents include cash balances held by our wholly owned subsidiaries as well as cash held by joint ventures that we consolidate. Joint venture and the Aspire project cash balances are limited to specific project 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 entities. We expect to use this cash for project costs and distributions of earnings.

The components of our cash and equivalents balance are as follows:

	September 30, 2019		
Dollars in millions	International (a)	Domestic (b)	Total
Operating cash and equivalents	$ 120	$ 133	$ 253
Short-term investments (c)	15	89	104
Cash and equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities	322	2	324
Total	$ 457	$ 224	$ 681

	December 31, 2018		
Dollars in millions	International (a)	Domestic (b)	Total
Operating cash and equivalents	$ 123	$ 104	$ 227
Short-term investments (c)	87	107	194
Cash and equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities	315	3	318
Total	$ 525	$ 214	$ 739

(a) Includes deposits held in non-U.S. operating accounts.
(b) Includes U.S. dollar and foreign currency deposits held in operating accounts that constitute onshore cash for tax purposes but may reside either in the U.S. or in a foreign country.
(c) Includes time deposits, money market funds, and other highly liquid short-term investments.

Note 6. Accounts Receivable

The components of our accounts receivable, net of allowance for doubtful accounts balance, are as follows:

	September 30, 2019		
Dollars in millions	Unbilled	Trade & Other	Total
Government Solutions	$ 302	$ 304	$ 606
Technology Solutions	4	61	65
Energy Solutions	118	247	365
Subtotal	424	612	1,036
Non-strategic Business	—	2	2
Total	$ 424	$ 614	$ 1,038

	December 31, 2018		
Dollars in millions	Unbilled	Trade & Other	Total
Government Solutions	$ 266	$ 334	$ 600
Technology Solutions	11	62	73
Energy Solutions	69	185	254
Subtotal	346	581	927
Non-strategic Business	—	—	—
Total	$ 346	$ 581	$ 927

Note 7. Contract Assets and Contract Liabilities

Our contract assets by business segment are as follows:

Dollars in millions	September 30, 2019		December 31, 2018	
Government Solutions	$	121	$	123
Technology Solutions		49		19
Energy Solutions		65		43
Subtotal		235		185
Non-strategic Business		—		—
Total	$	235	$	185

Our contract liabilities by business segment are as follows:

Dollars in millions	September 30, 2019		December 31, 2018	
Government Solutions	$	296	$	261
Technology Solutions		82		98
Energy Solutions		156		100
Subtotal		534		459
Non-strategic Business		2		4
Total	$	536	$	463

We recognized revenue of $194 million for the nine months ended September 30, 2019, that was previously included in the contract liability balance at December 31, 2018.

Note 8. Claims and Accounts Receivable

Our claims and accounts receivable balance not expected to be collected within the next 12 months was $104 million and $98 million as of September 30, 2019 and December 31, 2018, respectively. Claims and accounts receivable primarily reflect claims filed with the U.S. government related to payments not yet received for costs incurred under various U.S. government cost reimbursable contracts within our GS business segment. These claims relate to disputed costs or contracts where our costs have exceeded the U.S. government's funded value on the task order. Included in the amount is $72 million and $73 million as of September 30, 2019, and December 31, 2018, respectively, related to Form 1s issued by the U.S. government questioning or objecting to costs billed to them. See Note 14 of our condensed consolidated financial statements for additional information. The amount also includes $32 million and $25 million as of September 30, 2019, and December 31, 2018, respectively, related to contracts where our reimbursable costs have exceeded the U.S. government's funded values on the underlying task orders or task orders where the U.S. government has not authorized us to bill. We believe the remaining disputed costs will be resolved in our favor, at which time the U.S. government will be required to obligate funds from appropriations for the year in which resolution occurs.

Note 9. Unapproved Change Orders, and Claims, Against Clients and Estimated Recoveries of Claims Against Suppliers and Subcontractors

The amounts of unapproved change orders, and claims against clients and estimated recoveries of claims against suppliers and subcontractors included in determining the profit or loss on contracts are as follows:

Dollars in millions	2019		2018	
Amounts included in project estimates-at-completion at January 1,	$	973	$	924
(Decrease) increase, including foreign currency effect		(21)		39
Approved change orders, net of foreign currency effect		(7)		(4)
Amounts included in project estimates-at-completion at September 30,	$	945	$	959
Amounts recognized over time based on progress at September 30,	$	938	$	922

As of September 30, 2019, the predominant component of the change orders, customer claims and estimated recoveries of claims against suppliers and subcontractors above relates to our 30% proportionate share of unapproved change orders and claims associated with the Ichthys LNG Project discussed below.

KBR intends to vigorously pursue approval and collection of amounts still due under all unapproved change orders and claims, against the clients and recoveries from subcontractors. Further, there are additional claims that KBR believes it is entitled to recover from its client and from subcontractors which have been excluded from estimated revenues and profits at completion as appropriate under U.S. GAAP. These commercial matters may not be resolved in the near term. Our current estimates for the above unapproved change orders, client claims and estimated recoveries of claims against suppliers and subcontractors may prove inaccurate and any material change could have a material adverse effect on our results of operations, financial position and cash flows.

Ichthys LNG Project

Project Status

We have a 30% ownership interest in the JKC joint venture, which has contracted to perform the engineering, procurement, supply, construction and commissioning of onshore LNG facilities for a client in Darwin, Australia (the "Ichthys LNG Project"). The contract between JKC and its client is a hybrid contract containing both cost-reimbursable and fixed-price (including unit-rate) scopes.

The construction and commissioning of the Ichthys LNG Project is complete and all performance tests have been successfully performed. The entire facility, including two LNG liquefaction trains, cryogenic tanks and the combined cycle power generation facility, has been handed over to the client and is producing LNG. JKC is in the process of executing project close-out activities and continues to negotiate the various legal and commercial disputes with the client, suppliers and other third parties as further described below.

Unapproved Change Orders and Claims Against Client

Under the cost-reimbursable scope of the contract with the client, JKC has entered into commercial contracts with multiple suppliers and subcontractors to execute various scopes of work on the project. Certain of these suppliers and subcontractors have made contract claims against JKC for recovery of costs and extensions of time to progress the works under the scope of their respective contracts due to a variety of issues related to alleged changes to the scope of work, delays and lower than planned subcontractor productivity. In addition, JKC has incurred costs related to scope increases and other factors, and has made claims to its client for matters for which JKC believes it is entitled to reimbursement under the contract.

JKC believes any amounts paid or payable to the suppliers and subcontractors in settlement of their contract claims related to the cost-reimbursable scope are an adjustment to the contract price, and accordingly JKC has made claims for contract price adjustments under the cost-reimbursable scope of the contract between JKC and its client. However, the client disputed some of these contract price adjustments and subsequently withheld certain payments. In order to facilitate the continuation of work under the contract while JKC worked to resolve this dispute, the client agreed to a contractual mechanism (“Funding Deed”) in 2016 providing funding in the form of an interim contract price adjustment to JKC and consented to settlement of subcontractor claims as of that date related to the cost-reimbursable scope. While the client has reserved its contractual rights under this funding mechanism, settlement funds (representing the interim contract price adjustment) have been paid by the client. JKC in turn settled these subcontractor claims which have been funded through the Funding Deed by the client.

If JKC's claims against its client which were funded under the Funding Deed remain unresolved by December 31, 2020, JKC will be required to refund sums funded by the client under the terms of the Funding Deed. We, along with our joint venture partners, are jointly and severally liable to the client for any amounts required to be refunded.

Our proportionate share of the total amount of the contract price adjustments under the Funding Deed included in the unapproved change orders and claims related to JKC discussed above was $153 million as of September 30, 2019 and December 31, 2018.

In September and October 2017, additional settlements pertaining to suppliers and subcontractors under the cost-reimbursable scope of the contract were presented to the client. The client consented to these settlements and paid for them but reserved its contractual rights. In reliance, JKC in turn settled these claims with the associated suppliers and subcontractors. The formal contract price adjustments for these settlements remained pending at September 30, 2019. However, unlike amounts funded under the Funding Deed, there is no requirement to refund these amounts to the client by a certain date.

In October 2018, JKC received a favorable ruling from an arbitration tribunal. The ruling determined a contract interpretation in JKC's favor, to the effect that delay and disruption costs payable to subcontractors under the cost-reimbursable scope of the EPC contract are for the client's account and are reimbursable to JKC. JKC contends this ruling resolves the reimbursability of the subcontractor settlement sums under the Funding Deed and additional settlements made in September and October 2017. Pursuant to this decision, JKC is undertaking steps for a formal contract adjustment to the cost-reimbursable scope of the contract for these settlement claims which are included in the recognized unapproved change orders as of September 30, 2019. Our view is that the arbitration ruling resolves our obligations under the Funding Deeds and settlements with reimbursable subcontractors. However, the client does not agree with the impact of the arbitration award and, accordingly, we have initiated a new proceeding to obtain further determination from the arbitration tribunal. The arbitration tribunal has scheduled a hearing on the Funding Deed matter for September 2020.

There has been deterioration of paint and insulation on certain exterior areas of the plant. The client previously requested and funded, paint remediation for a portion of the facilities. JKC's profit estimate at completion includes a portion of revenues and costs for these remediation activities. Revenue for the client-funded amounts are included in the table above. In the first quarter of 2019, the client demanded repayment of the amounts previously funded to JKC. JKC is disputing the client's demand. The client has also requested a proposal to remediate any remaining non-conforming paint and insulation, but JKC and its client have not resolved the nature and extent of the non-conformances, the method and degree of remediation that was and is required, or who is responsible. We believe the remaining remediation costs could be material given the plant is now operating and there will be several operating constraints on any such works.

In addition, JKC has started proceedings against the paint manufacturer and initiated claims against the subcontractors. JKC has also made demands on insurance policies in respect of these matters. Proceedings and claims against the paint manufacturer, certain subcontractors and insurance policies are ongoing.

Combined Cycle Power Plant

Pursuant to JKC's fixed-price scope of its contract with its client, JKC awarded a fixed-price EPC contract to a subcontractor for the design, construction and commissioning of the Power Plant. The subcontractor was a consortium consisting of General Electric and GE Electrical International Inc. and a joint venture between UGL Infrastructure Pty Limited and CH2M Hill (collectively, the "Consortium"). On January 25, 2017, JKC received a Notice of Termination from the Consortium, and the Consortium ceased work on the Power Plant and abandoned the construction site. JKC believes the Consortium materially breached its subcontract and repudiated its obligation to complete the Power Plant, plus undertook actions making it more difficult and more costly for the works to be completed by others after the Consortium abandoned the site. Subsequently, the Consortium filed a request for arbitration with the ICC asserting that JKC repudiated the contract. The Consortium also sought an order that the Consortium validly terminated the subcontract. JKC has responded to this request, denying JKC committed any breach of its subcontract with the Consortium and restated its claim that the Consortium breached and repudiated its subcontract with JKC and is furthermore liable to JKC for all costs to complete the Power Plant.

In March 2017, JKC prevailed in a legal action against the Consortium requiring the return of materials, drawings and tools following their unauthorized removal from the site by the Consortium. After taking over the work, JKC discovered incomplete and defective engineering designs, defective workmanship on the site, missing, underreported and defective materials; and the improper termination of key vendors/suppliers. JKC's investigations also indicate that progress of the work claimed by the Consortium was over-reported. JKC has evaluated the cost to complete the Consortium's work, which significantly exceeds the awarded fixed-price subcontract value. JKC's cost to complete the Power Plant includes re-design efforts, additional materials and significant re-work. These costs represent estimated recoveries of claims against the Consortium and have been included in JKC's estimate to complete the Consortium's remaining obligations.

JKC is pursuing recourse against the Consortium to recover all of the costs to complete the Power Plant, plus the additional interest, and/or general damages by all means inclusive of calling bank guarantees provided by the Consortium partners. In April 2018, JKC prevailed in a legal action to call bank guarantees (bonds) and received funds totaling $52 million. Each of the Consortium partners has joint and several liability with respect to all obligations under the subcontract. JKC intends to pursue recovery of all additional amounts due from the Consortium via various legal remedies available to JKC.

Costs incurred to complete the Power Plant that have been determined to be probable of recovery from the Consortium under U.S. GAAP have been included as a reduction of cost in our estimate of profit at completion. The estimated recoveries exclude interest, liquidated damages and other related costs which JKC intends to pursue recovery from the Consortium. Amounts expected to be recovered from the Consortium are included in the table above.

As of September 30, 2019, JKC claims against the Consortium were approximately $1.9 billion for recovery of JKC's costs. An arbitration hearing against the Consortium is scheduled in the first half of 2020 (the "Arbitration"). JKC also initiated suit against the parent companies of the Consortium members to seek a declaration that the parents either had to perform and finish the work or pay for the completion of the power plant based on their payment and performance guarantees. In May 2019, the court ruled against the declaration and JKC's appeal is pending from the court.

To the extent JKC is unsuccessful in prevailing in the Arbitration or the Consortium members are unable to satisfy their financial obligations in the event of a decision favorable to JKC, we would be responsible for our pro-rata portion of unrecovered costs from the Consortium. This could have a material adverse impact on the profit at completion of the overall contract and thus on our consolidated statements of operations and financial position.

Ichthys Project Funding

As a result of the ongoing disputes with the client and pursuit of recoveries against the Consortium through the Arbitration, we have funded our proportionate share of the working capital requirements of JKC to complete the project. During the year ended December 31, 2018, we made investment contributions to JKC of approximately $344 million to fund the ongoing project execution activities. During the nine months ended September 30, 2019, we made additional investment contributions to JKC of approximately $141 million to fund the ongoing project execution activities. The project execution activities have now been completed and were within our forecasted contributions of $500 million.

If we experience unfavorable outcomes associated with the various legal and commercial disputes, our total investment contributions could increase which could have a material adverse effect on our financial position and cash flows. Further, if our joint venture partner(s) in JKC do not fulfill their responsibilities under the JKC JV agreement or subcontract, we could be exposed to additional funding requirements as a result of the nature of the JKC JV agreement.

As of September 30, 2019, we had $164 million in letters of credit outstanding in support of performance and warranty guarantees provided to the client. The performance and warranty letters of credit have been extended to February 2021 to allow for the various disputes to be resolved.

Other Matters

JKC is entitled to an amount of profit and overhead (“TRC Fee”) which is a fixed percentage of the target reimbursable costs ("TRC") under the reimbursable component of the contract which was to be agreed by JKC and its client. At the time of the contract, JKC and its client agreed to postpone the fixing of the TRC until after a specific milestone in the project had been achieved. Although the milestone was achieved, JKC and its client have been unable to reach agreement on the TRC. This matter was taken to arbitration in 2017. A decision was issued in December 2017 concluding that the TRC should be determined based on project estimate information available at April 2014. JKC has included an estimate for the TRC Fee in its determination of profit at completion at September 30, 2019, based on the contract provisions and the decision from the December 2017 arbitration. JKC has submitted the revised estimate of the TRC Fee to the client. The parties have not agreed to the revised estimate, and JKC has started an additional arbitration on this dispute. The arbitration panel has been constituted but a hearing date has not been scheduled.

All of the Ichthys LNG project commercial matters are complex and involve multiple interests, including the client, suppliers and other third parties. Ultimate resolution may not occur in the near term. Our current estimates for resolving these matters may prove inaccurate and, if so, any material change could have a material adverse effect on our results of operations, financial position and cash flows.

See Note 10 to our condensed consolidated financial statements for further discussion regarding our equity method investment in JKC.

Note 10. Equity Method Investments and Variable Interest Entities

We conduct some of our operations through joint ventures, which operate through partnership, corporation, undivided interest and other business forms and are principally accounted for using the equity method of accounting. Additionally, the majority of our joint ventures are VIEs.

The following table presents a rollforward of our equity in and advances to unconsolidated affiliates:

	Nine Months Ended September 30,	Year Ended December 31,
	2019	2018
Dollars in millions		
Beginning balance at January 1,	$ 724	$ 365
Cumulative effect of change in accounting policy (a)	—	87
Adjusted balance at January 1,	724	452
Equity in earnings of unconsolidated affiliates	24	79
Distributions of earnings of unconsolidated affiliates	(64)	(75)
Payments from (advances to) unconsolidated affiliates, net	(9)	(12)
Investments (b)	146	344
Foreign currency translation adjustments	(28)	(28)
Other	—	(36)
Ending balance	$ 793	$ 724

(a) Deferred construction income in the amount of $87 million previously recorded in "Equity in and advance to unconsolidated affiliates" was reversed and included in the cumulative effect adjustment as a result of the adoption of ASC 606 by the Aspire Defence project joint ventures.
(b) For the nine months ended September 30, 2019, investments include a $141 million investment to fund JKC. In 2018, the total amount of investments were made to fund JKC.

Unconsolidated Variable Interest Entities

For the VIEs in which we participate, our maximum exposure to loss consists of our equity investment in the VIE and any amounts owed to us for services we may have provided to the VIE, reduced by any unearned revenues on the project. Our maximum exposure to loss may also include our obligation to fund our proportionate share of any future losses incurred. As of September 30, 2019, we do not project any losses related to these joint venture projects. Where our performance and financial obligations are joint and several to the client with our joint venture partners, we may be further exposed to losses above our ownership interest in the joint venture.

The following summarizes the total assets and total liabilities as reflected in our condensed consolidated balance sheets related to our unconsolidated VIEs in which we have a significant variable interest but are not the primary beneficiary.

	September 30, 2019	
Dollars in millions	Total Assets	Total Liabilities
Affinity joint venture (U.K. MFTS project)	$ 15	$ 9
Aspire Defence Limited	$ 58	$ 5
JKC joint venture (Ichthys LNG project)	$ 534	$ 31
U.K. Road project joint ventures	$ 37	$ 9
Middle East Petroleum Corporation (EBIC Ammonia project)	$ 47	$ 1

Dollars in millions	December 31, 2018			
	Total Assets		Total Liabilities	
Affinity joint venture (U.K. MFTS project)	$	16	$	8
Aspire Defence Limited	$	68	$	5
JKC joint venture (Ichthys LNG project)	$	427	$	32
U.K. Road project joint ventures	$	37	$	10
Middle East Petroleum Corporation (EBIC Ammonia project)	$	51	$	1

Related Party Transactions

We often provide engineering, construction management and other subcontractor services to our joint ventures and our revenues include amounts related to these services. For the nine months ended September 30, 2019 and 2018, our revenues included $525 million and $531 million, respectively, related to the services we provided to our unconsolidated joint ventures, primarily the Aspire Defence Limited joint venture within our GS business segment and the JKC joint venture within our ES business segment.

Amounts included in our condensed consolidated balance sheets related to services we provided to our unconsolidated joint ventures as of September 30, 2019, and December 31, 2018 are as follows:

Dollars in millions	September 30, 2019		December 31, 2018	
Accounts receivable, net of allowance for doubtful accounts	$	33	$	43
Contract assets (a)	$	5	$	1
Contract liabilities (a)	$	37	$	38
Accounts payable	$	—	$	2

(a) Reflects contract assets and contract liabilities primarily related to joint ventures within our ES business segment.

Consolidated Variable Interest Entities

We consolidate VIEs if we determine we are the primary beneficiary of the project entity because we control the activities that most significantly impact the economic performance of the entity. The following is a summary of the significant VIEs where we are the primary beneficiary:

Dollars in millions	September 30, 2019			
	Total Assets		Total Liabilities	
KJV-G joint venture (Gorgon LNG project)	$	12	$	17
Fasttrax Limited (Fasttrax project)	$	46	$	27
Aspire Defence subcontracting entities (Aspire Defence project)	$	536	$	306

Dollars in millions	December 31, 2018			
	Total Assets		Total Liabilities	
KJV-G joint venture (Gorgon LNG project)	$	13	$	19
Fasttrax Limited (Fasttrax project)	$	49	$	34
Aspire Defence subcontracting entities (Aspire Defence project)	$	589	$	324

Note 11. Pension Plans

The components of net periodic benefit cost related to pension benefits for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,			
	2019		2018	
Dollars in millions	United States	Int'l	United States	Int'l
Components of net periodic benefit cost				
Service cost	$ —	$ —	$ —	$ 1
Interest cost	1	12	1	12
Expected return on plan assets	(1)	(18)	(1)	(20)
Amortization of prior service cost	—	—	—	—
Recognized actuarial loss	—	4	—	6
Net periodic benefit cost	$ —	$ (2)	$ —	$ (1)

	Nine Months Ended September 30,			
	2019		2018	
Dollars in millions	United States	Int'l	United States	Int'l
Components of net periodic benefit cost				
Service cost	$ —	$ —	$ —	$ 1
Interest cost	2	37	2	38
Expected return on plan assets	(2)	(57)	(3)	(61)
Amortization of prior service cost	—	1	—	—
Recognized actuarial loss	1	12	1	20
Net periodic benefit cost	$ 1	$ (7)	$ —	$ (2)

For the nine months ended September 30, 2019, we have contributed approximately $31 million of the $44 million we expect to contribute to our plans in 2019.

Note 12. Debt and Other Credit Facilities

Our outstanding debt consisted of the following at the dates indicated:

Dollars in millions	September 30, 2019	December 31, 2018
Term Loan A	$ 181	$ 190
Term Loan B	758	796
Convertible Notes	350	350
Unamortized debt issuance costs - Term Loan A	(5)	(5)
Unamortized debt issuance costs and discount - Term Loan B	(16)	(18)
Unamortized debt issuance costs and discount - Convertible Notes	(56)	(65)
Total long-term debt	1,212	1,248
Less: current portion	27	22
Total long-term debt, net of current portion	$ 1,185	$ 1,226

Senior Credit Facility

The senior secured credit facility ("Senior Credit Facility") consists of a $500 million revolving credit facility ("Revolver"), a $500 million PLOC, a $350 million Delayed Draw Term Loan A, ("Term Loan A") and an $800 million Term Loan B ("Term Loan B"). The Revolver, PLOC and Term Loan A mature in April 2023 and the Term Loan B matures in April 2025. Additional borrowings are no longer available under the Term Loan A. Borrowings under the Term Loan A were used to fund investment contributions in JKC. See Note 9 to our condensed consolidated financial statements for a discussion on JKC.

The interest rates with respect to the Revolver and Term Loan A are based on, at the Company's option, adjusted LIBOR plus an additional margin or base rate plus additional margin. The interest rate with respect to the Term Loan B is LIBOR plus 3.75%. The Senior Credit Facility provides for fees on letters of credit issued under the PLOC at varying rates, as shown below. Additionally, there is a commitment fee with respect to the Revolver, PLOC and Term Loan A. The details of the applicable margins and commitment fees are based on the Company's consolidated leverage ratio as follows:

	Revolver and Term Loan A			
Consolidated Leverage Ratio	**LIBOR Margin**	**Base Rate Margin**	**Performance Letter of Credit Fee**	**Commitment Fee**
Greater than or equal to 4.00 to 1.00	3.25%	2.25%	1.95%	0.450%
Less than 4.00 to 1.00 but greater than or equal to 3.00 to 1.00	3.00%	2.00%	1.80%	0.400%
Less than 3.00 to 1.00 but greater than or equal to 2.00 to 1.00	2.75%	1.75%	1.65%	0.375%
Less than 2.00 to 1.00	2.50%	1.50%	1.50%	0.350%

The Term Loan A provides for quarterly principal payments of 2.50% of the aggregate principal amount commencing with the fiscal quarter ending June 30, 2019. The Term Loan B provides for quarterly principal payments of 0.25% of the initial aggregate principal amounts commencing with the fiscal quarter ending September 30, 2018.

The Senior Credit Facility contains financial maintenance covenants of a maximum consolidated leverage ratio and a consolidated interest coverage ratio (as such terms are defined in the Senior Credit Facility). Our consolidated leverage ratio as of the last day of any fiscal quarter may not exceed 4.50 to 1 and reducing gradually during 2019 and 2020 to 3.50 to 1. Our consolidated interest coverage ratio as of the last day of any fiscal quarter, commencing with the fiscal quarter ending June 30, 2018 and thereafter, may not be less than 3.00 to 1. As of September 30, 2019, we were in compliance with our financial covenants.

Convertible Senior Notes

Convertible Senior Notes - On November 15, 2018, we issued and sold $350 million of 2.50% Convertible Senior Notes due 2023 (the "Convertible Notes") pursuant to an indenture (the "Indenture") between us and Citibank, N.A., as trustee (the "Trustee"). The Convertible Notes are senior unsecured obligations. The Convertible Notes bear interest at 2.50% per year and interest is payable on May 1 and November 1 of each year. The Convertible Notes mature on November 1, 2023 and may not be redeemed by us prior to maturity. The effective interest rate on the liability component for the period is 6.50%. The amount of interest cost recognized relating to the contractual interest coupon was $2 million and $6 million for the three and nine months ended September 30, 2019, respectively, and relating to the amortization of the discount on the liability was $3 million and $8 million for the three and nine months ended September 30, 2019, respectively.

The Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our current intent and policy to settle the principal balance of the Convertible Notes in cash and any excess value upon conversion in shares of our common stock. The initial conversion price of the Convertible Notes is approximately $25.51 (subject to adjustment in certain circumstances), based on the initial conversion rate of 39.1961 Common Shares per $1,000 principal amount of Convertible Notes. Prior to May 1, 2023, the Convertible Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, until the close of business on the second scheduled trading day immediately preceding the maturity date.

Letters of credit, surety bonds and guarantees

In connection with certain projects, we are required to provide letters of credit, surety bonds or guarantees to our customers. Letters of credit are provided to certain customers and counterparties in the ordinary course of business as credit support for contractual performance guarantees, advanced payments received from customers and future funding commitments. We have $1 billion in a committed line of credit under the Senior Credit Facility, comprised of the $500 million Revolver and $500 million PLOC. Additionally, we have approximately $368 million of uncommitted lines of credit to support the issuance of letters of credit. Surety bonds are also posted under the terms of certain contracts to guarantee our performance. As of September 30, 2019, with respect to our $500 million Revolver, we have no outstanding revolver borrowings and have issued $26 million of letters of credit. With respect to our PLOC, we have $91 million of outstanding letters of credit. With respect to our $368 million of uncommitted lines of credit, we have utilized $200 million for letters of credit as of September 30, 2019. The total remaining capacity of these committed and uncommitted lines of credit is approximately $1.1 billion. Of the letters of credit outstanding under the Senior Credit Facility, none have expiry dates beyond the maturity date of the Senior Credit Facility. Of the total letters of credit outstanding, $169 million relate to our joint venture operations where the letters of credit are posted using our capacity to support our pro-rata share of obligations under various contracts executed by joint ventures of which we are a member.

Nonrecourse Project Debt

Fasttrax Limited, a consolidated joint venture in which we indirectly own a 50% equity interest with an unrelated partner, was awarded a concession contract in 2001 with the U.K. MoD to provide a Heavy Equipment Transporter Service to the British Army. Fasttrax Limited operates and maintains 91 HETs for a term of 22 years. The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fasttrax Limited and subordinated debt from the joint venture partners. The secured bonds are an obligation of Fasttrax Limited and are not a debt obligation of KBR as they are nonrecourse to the joint venture partners. Accordingly, in the event of a default on the notes, the lenders may only look to the assets of Fasttrax Limited for repayment.

The secured bonds were issued in two classes consisting of Class A 3.5% Index Linked Bonds in the amount of £56.0 million and Class B 5.9% Fixed Rate Bonds in the amount of £20.7 million. Semi-annual payments on both classes of bonds will continue through maturity in 2021. The subordinated notes payable to each of the partners initially bear interest at 11.25% increasing to 16.00% over the term of the notes until maturity in 2025. For financial reporting purposes, only our partner's portion of the subordinated notes appears in the condensed consolidated financial statements.

Note 13. Income Taxes

The effective tax rate was approximately 30% and 28% for the three and nine months ended September 30, 2019, respectively. The effective tax rate was approximately 28% and 22% for the three and nine months ended September 30, 2018, respectively. The effective tax rate for the nine months ended September 30, 2019, as compared to the U.S. statutory rate of 21%, was primarily impacted by the rate differential on our foreign earnings including equity losses for which no tax benefit is available. The effective tax rate for the nine months ending September 30, 2018 was impacted by a discrete tax expense as a result of obtaining control of the Aspire Defence project subcontracting joint ventures, which was recorded at a lower rate than our estimated annual tax rate for 2018.

Our estimated annual effective rate for 2019 is 27% excluding the effects of discrete items. Our estimated annual effective rate is subject to change based on the actual jurisdictions where our 2019 earnings are generated.

The valuation allowance for deferred tax assets as of September 30, 2019, and December 31, 2018, was $197 million and $207 million, respectively. The changes in the valuation allowance were decreases of $2 million and $10 million for the three and nine months ended September 30, 2019, respectively, and decreases of $4 million and $72 million for the three and nine months ended September 30, 2018, respectively. The valuation allowance is primarily related to foreign tax credit carryforwards and foreign and state net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized. The decrease in the valuation allowance for the three and nine months ended September 30, 2018 primarily related to changes in foreign tax credit carryforwards due to the refinement of provisional impacts recorded related to the Deemed Repatriation Transition Tax. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income, in the appropriate character and source, during the periods in which those temporary differences become deductible or within the remaining carryforward period. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

The provision for uncertain tax positions included in "Other liabilities" and "Deferred income taxes" on our condensed consolidated balance sheets as of September 30, 2019, and December 31, 2018, was $88 million and $90 million, respectively.

Note 14. U.S. Government Matters

We provide services to various U.S. governmental agencies, including the U.S. DoD, NASA, and the Department of State. We may have disagreements or experience performance issues on our U.S. government contracts. When performance issues arise under any of these contracts, the U.S. government retains the right to pursue various remedies, including challenges to expenditures, suspension of payments, fines and suspensions or debarment from future business with the U.S. government. The negotiation, administration and settlement of our contracts are subject to audit by the DCAA. The DCAA serves in an advisory role to the DCMA, and the DCMA is responsible for the administration of the majority of our contracts. The scope of these audits include, among other things, the validity of direct and indirect incurred costs, provisional approval of annual billing rates, approval of annual overhead rates, compliance with the FAR and CAS, compliance with certain unique contract clauses and audits of certain aspects of our internal control systems. Based on the information received to date, we do not believe the completed or ongoing government audits will have a material adverse impact on our results of operations, financial position or cash flows.

Legacy U.S. Government Matters

Between 2002 and 2011, we provided significant support to the U.S. Army and other U.S. government agencies in support of the war in Iraq under the LogCAP III contract. We have been in the process of closing out the LogCAP III contract since 2011, and we expect the contract closeout process to continue for at least another year. As a result of our work under LogCAP III, there are claims and disputes pending between us and the U.S. government which need to be resolved in order to close the contract. The contract closeout process includes resolving objections raised by the U.S. government through a billing dispute process referred to as Form 1s and MFRs. We continue to work with the U.S. government to resolve these issues and are engaged in efforts to reach mutually acceptable resolution of these outstanding matters. However, for certain of these matters, we have filed claims with the ASBCA or the COFC. We also have matters related to ongoing litigation or investigations involving U.S. government contracts. We anticipate billing additional labor, vendor resolution and litigation costs as we resolve the open matters.

Form 1s

The U.S. government has issued Form 1s questioning or objecting to costs we billed to them under cost reimbursable contracts primarily related to our use of private security and our provision of containerized housing under the LogCAP III contract discussed below. As a consequence of the issuance of the Form 1s, the U.S. government has withheld payment to us on outstanding invoices, pending resolution of these matters.

The U.S. government has issued and has outstanding Form 1s questioning $134 million of billed costs as of September 30, 2019. They had previously paid us $62 million of the questioned costs related to our services on these contracts. The remaining balance of $72 million as of September 30, 2019, is included on our condensed balance sheets in “Claims and accounts receivable". In addition, we have withheld $26 million from our subcontractors at September 30, 2019, related to these questioned costs, which is included in "Other current liabilities" on our condensed balance sheets.

While we continue to believe that the amounts we have invoiced the U.S. government are in compliance with our contract terms and that recovery is probable, we also continue to evaluate our ability to recover these amounts as new information becomes known. As is common in the industry, negotiating and resolving these matters is often an involved and lengthy process, which sometimes necessitates the filing of claims or other legal action as discussed above. Concurrent with our continued negotiations with the U.S. government, we await the rulings on the filed claims. We are unable to predict when the rulings will be issued or when the matters will be settled or resolved with the U.S. government.

As a result of the Form 1s, and claims discussed above as well as open audits, we have accrued a reserve for unallowable costs of $41 million as of September 30, 2019, and December 31, 2018. The balance at September 30, 2019, is recorded in "Contract liabilities" and "Other liabilities" in the amounts of $25 million and $16 million, respectively. The balance at December 31, 2018, is recorded in "Contract liabilities" and "Other liabilities" in the amounts of $26 million and $15 million, respectively.

Private Security Contractors. Starting in February 2007, we received a series of Form 1s from the DCAA informing us of the U.S. government's intent to deny reimbursement to us under the LogCAP III cost reimbursable contract for amounts related to the use of PSCs by KBR and a subcontractor in connection with its work for KBR providing dining facility services in Iraq between 2003 and 2006. The government challenged $56 million in billings. The government had previously paid $11 million and has withheld payments of $45 million, which as of September 30, 2019, we have recorded as due from the government related to this matter in "Claims and accounts receivable" on our condensed consolidated balance sheets.

On June 16, 2014, we received a decision from the ASBCA which agreed with KBR's position (i) that the LogCAP III contract did not prohibit the use of PSCs to provide force protection to KBR or subcontractor personnel, (ii) that there was a need for force protection and (iii) that the costs were reasonable. The ASBCA also found that the U.S. Army breached its obligation to provide force protection. The U.S. Army appealed the decision.

On June 12, 2017, we received a second ruling from the ASBCA that we are entitled to recover the withheld costs in the approximate amount of $45 million plus interest related to the use of PSCs. The U.S. Army filed a notice of appeal on October 12, 2017. On July 9, 2019 the Court of Appeals for the Federal Circuit upheld the ASBCA decision confirming the entire award including interest. Accordingly, we believe that we are entitled to reimbursement by the U.S. Army for the amounts charged by our subcontractors, even if they incurred costs for PSCs. We believe the likelihood that we will incur a loss related to this matter is remote, and therefore we have not accrued any loss provisions related to this matter.

Investigations, Qui Tams and Litigation

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts. Many of these matters involve allegations of violations of the FCA, which prohibits in general terms fraudulent billings to the U.S. government. Suits brought by private individuals are called "qui tams." We believe the costs of litigation and any damages that may be awarded in the FKTC matters described below are billable under the LogCAP III. All costs billed under LogCAP III are subject to audit by the DCAA for reasonableness.

First Kuwaiti Trading Company arbitration. In April 2008, FKTC, one of our LogCAP III subcontractors providing housing containers, filed for arbitration with the American Arbitration Association all its claims under various LogCAP III subcontracts. After complete hearings on all claims, the arbitration panel awarded FKTC $17 million plus interest for claims involving damages on lost or unreturned vehicles. In addition, we determined that we owe FKTC $32 million in connection with other subcontracts provided we are reimbursed for these same costs by the U.S. government. We previously paid FKTC $19 million and the remaining $30 million is recorded in "Other current liabilities" on our condensed consolidated balance sheets with pay-when-paid terms in the contract. As of September 30, 2019, we believe our recorded accruals and the pay-when-paid terms in our contract with FKTC are adequate if we are unable to favorably resolve our claims and disputes against the U.S. government. See "KBR Contract Claim on FKTC containers" below.

Howard qui tam. In March 2011, Geoffrey Howard and Zella Hemphill filed a complaint in the U.S. District Court for the Central District of Illinois alleging that KBR mischarged the government $628 million for unnecessary materials and equipment. In October 2014, the DOJ declined to intervene and the case was partially unsealed. Discovery is ongoing in this case and is expected to continue into 2020. We believe the allegations of fraud by the relators are without merit and, as of September 30, 2019, no amounts have been accrued.

DOJ False Claims Act complaint - Iraq Subcontractor. In January 2014, the DOJ filed a complaint in the U.S. District Court for the Central District of Illinois against KBR and two former KBR subcontractors, including FKTC, alleging that three former KBR employees were offered and accepted kickbacks from these subcontractors in exchange for favorable treatment in the award and performance of subcontracts to be awarded during the course of KBR's performance of the LogCAP III contract in Iraq. The complaint alleges that as a result of the kickbacks, KBR submitted invoices with inflated or unjustified subcontract prices, resulting in alleged violations of the FCA and the Anti-Kickback Act. The DOJ's investigation dates back to 2004. We self-reported most of the violations and tendered credits to the U.S. government as appropriate. On May 22, 2014, FKTC filed a motion to dismiss, which the U.S. government opposed. Following the submission of our answer in April 2014, the U.S. government was granted a Motion to Strike certain affirmative defenses in March 2015. We do not believe this limits KBR's ability to fully defend all allegations in this matter.

Discovery for this complaint is now complete. The Court has yet to rule on various motions filed in early 2019 that would affect the scope and venue of the case. The court will set hearing and trial dates after addressing the pending motions which we expect will occur in 2020. As of September 30, 2019, we have accrued our best estimate of probable loss related to an unfavorable settlement of this matter in "Other liabilities" on our condensed consolidated balance sheets.

Other matters

KBR Contract Claim on FKTC containers. KBR previously filed a claim before the ASBCA to recover the costs paid to FKTC to settle its requests for equitable adjustment. The DCMA had disallowed the majority of those costs. Those contract claims were stayed in 2013 at the request of the DOJ so that they could pursue the FCA case referenced above. Those claims were reinstated in 2016. We tried our contract appeal in September 2017. In November 2018, we received an unfavorable ruling from the ASBCA disallowing all of our costs paid to FKTC. KBR's motion for reconsideration by a senior panel of judges at the ASBCA was denied. KBR filed its brief on appeal in September 2019. We expect oral arguments will take place in 2020. As of September 30, 2019, we believe our recorded accruals and the pay-when-paid terms in our contract with FKTC are adequate in the event we are unable to favorably resolve our claims and disputes against the government.

Note 15. Other Commitments and Contingencies

Unaoil Investigation. The DOJ, SEC, and the SFO are conducting investigations of Unaoil, a Monaco based company, in relation to international projects involving several global companies, including KBR, whose interactions with Unaoil are a subject of those investigations. KBR believes it is cooperating with the DOJ, SEC, and the SFO in their investigations, including through the voluntary submission of information and responding to formal document requests.

Chadian Employee Class Action. In May 2018, former employees of our former Chadian subsidiary, Subsahara Services, Inc. (SSI), filed a class action suit claiming unpaid damages arising from the ESSO Chad Development Project for Exxon Mobil Corporation (Exxon) dating back to the early 2000’s. Exxon is also named as a defendant in the case. The SSI employees previously filed two class action cases in or around 2005 and 2006 for alleged unpaid overtime and bonuses. The Chadian Labour Court ruled in favor of the SSI employees for unpaid overtime resulting in a settlement of approximately $25 million which was reimbursed by Exxon under its contract with SSI. The second case for alleged unpaid bonuses was ultimately dismissed by the Supreme Court of Chad.

The current case claims $122 million in unpaid bonuses characterized as damages rather than employee bonuses to avoid the previous Supreme Court dismissal and a 5-year statute of limitations on wage-related claims. SSI’s initial defense was filed and a hearing was held in December 2018. A merits hearing was held in February 2019. In March 2019, the Labour Court issued a decision awarding the plaintiffs approximately $34 million including a $2 million provisional award. SSI and Exxon have appealed the award and requested suspension of the provisional award which was approved on April 2, 2019. Exxon and SSI filed a submission to the Court of Appeal on June 21, 2019. The plaintiffs have not yet filed a submission to the Court of Appeals.

At this time we do not believe a risk of material loss is probable related to this matter, and therefore we have not accrued any loss provisions. SSI is no longer an existing entity in Chad or the United States. Further, we believe any amounts ultimately paid to the former employees related to this adverse ruling would be reimbursable by Exxon based on the applicable contract.

North West Rail Link Project. We participate in an unincorporated joint venture with two partners to provide engineering and design services in relation to the operations, trains and systems of a metro rail project in Sydney, Australia. The project commenced in 2014 and during its execution, encountered delays and disputes resulting in claims and breach notices submitted to the joint venture by the client. Since November 2018, the client has submitted multiple claims alleging breach of contract and breach of duty by the joint venture in its execution of the services claiming losses and damages of up to approximately $300 million Australian dollars. We currently believe the gross of amount of the claims significantly exceeds the client’s entitlement as well as the joint venture’s limits of liability under the contract and that the claims will be covered by project-specific professional indemnity insurance subject to deductibles.

The joint venture and its client are discussing potential resolution of the claims although no specific course of action has been agreed. In August 2019, the client advised that it has filed legal proceedings in the Supreme Court of New South Wales to preserve its position with regards to statute of limitations. However, the joint venture has yet to be served. KBR has a 33% participation interest in the joint venture and the partners have joint and several liability with respect to all obligations under the contract. As of September 30, 2019, we are evaluating the claims and contractual terms and therefore, we are unable to reasonably estimate the potential outcome related to this matter. Discussions between the joint venture and its client are ongoing.

Note 16. Leases

We enter into lease arrangements primarily for real estate, project equipment, transportation and information technology assets in the normal course of our business operations. Real estate leases accounted for approximately 91% of our lease obligations at September 30, 2019. An arrangement is determined to be a lease at inception if it conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration. We have elected not to recognize an ROU asset and lease liability for leases with an initial term of 12 months or less. Many of our equipment leases, primarily associated with the performance of projects for U.S. government customers, include one or more renewal option periods, with renewal terms that can extend the lease term in one year increments. The exercise of these lease renewal options is at our sole discretion and is generally dependent on the period of project performance, or extension thereof, determined by our customers. When it is reasonably certain that we will exercise the option, we include the impact of the option in the lease term for purpose of determining total future lease payments. As most of our lease agreements do not explicitly state the discount rate implicit in the lease, we use our incremental borrowing rate on the commencement date to calculate the present value of future lease payments.

Certain leases include payments that are based solely on an index or rate. These variable lease payments are included in the calculation of the ROU asset and lease liability. Other variable lease payments, such as usage-based amounts, are excluded from the ROU asset and lease liability, and are expensed as incurred. In addition to the present value of the future lease payments, the calculation of the ROU asset also includes any deferred rent, lease pre-payments and initial direct costs of obtaining the lease, such as commissions.

In addition to the base rent, real estate leases typically contain provisions for common-area maintenance and other similar services, which are considered non-lease components for accounting purposes. We exclude these non-lease components in calculating the ROU asset and lease liability for real estate leases and expense them as incurred. For all other types of leases, non-lease components are included in calculating our ROU assets and lease liabilities.

The components of lease costs for the nine months ended September 30, 2019 were as follows:

Dollars in millions	September 30, 2019
Operating lease cost	$ 44
Short-term lease cost	83
Total lease cost	$ 127

Operating lease cost for the nine months ended September 30, 2019 includes operating lease ROU asset amortization of $27 million and other noncash operating lease costs of $17 million related to the accretion of operating lease liabilities and straight-line lease accounting.

Total short-term lease commitments as of September 30, 2019 was approximately $89 million. Additional information related to leases was as follows:

Dollars in millions	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 44
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 23
Weighted-average remaining lease term-operating (in years)	8.0
Weighted-average discount rate-operating leases	7.6%

The following is a maturity analysis of the future undiscounted cash flows associated with our operating lease liabilities as of September 30, 2019:

	Year						
Dollars in millions	2019	2020	2021	2022	2023	Thereafter	Total
Future payments - operating leases	$ 13	$ 56	$ 46	$ 37	$ 33	$ 144	$ 329

Dollars in millions	Operating Leases
Total future payments	$ 329
Less imputed interest	(86)
Present value of future lease payments	$ 243
Less current portion of lease obligations	(42)
Noncurrent portion of lease obligations	$ 201

Note 17. Shareholders' Equity

The following tables summarize our activity in shareholders' equity:

Dollars in millions	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at June 30, 2019	$ 1,794	$ 2,197	$ 1,321	$ (818)	$ (926)	20
Share-based compensation	4	4	—	—	—	—
Common stock issued upon exercise of stock options	1	1	—	—	—	—
Dividends declared to shareholders	(11)	—	(11)	—	—	—
Repurchases of common stock	(1)	—	—	(1)	—	—
Issuance of ESPP shares	2	—	—	2	—	—
Distributions to noncontrolling interests	(2)	—	—	—	—	(2)
Net income	58	—	56	—	—	2
Other comprehensive loss, net of tax	(28)	—	—	—	(28)	—
Balance at September 30, 2019	$ 1,817	$ 2,202	$ 1,366	$ (817)	$ (954)	$ 20

Dollars in millions	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at December 31, 2018	$ 1,718	$ 2,190	$ 1,235	$ (817)	$ (910)	$ 20
Cumulative adjustment for the adoption of ASC 842	21	—	21	—	—	—
Adjusted balance at January 1, 2019	1,739	2,190	1,256	(817)	(910)	20
Share-based compensation	9	9	—	—	—	—
Common stock issued upon exercise of stock options	3	3	—	—	—	—
Dividends declared to shareholders	(34)	—	(34)	—	—	—
Repurchases of common stock	(4)	—	—	(4)	—	—
Issuance of ESPP shares	4	—	—	4	—	—
Distributions to noncontrolling interests	(6)	—	—	—	—	(6)
Net income	150	—	144	—	—	6
Other comprehensive loss, net of tax	(44)	—	—	—	(44)	—
Balance at September 30, 2019	$ 1,817	$ 2,202	$ 1,366	$ (817)	$ (954)	$ 20

Dollars in millions	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at June 30, 2018	$ 1,588	$ 2,171	$ 1,156	$ (819)	$ (934)	$ 14
Share-based compensation	2	2	—	—	—	—
Common stock issued upon exercise of stock options	2	2	—	—	—	—
Dividends declared to shareholders	(11)	—	(11)	—	—	—
Repurchases of common stock	—	—	—	—	—	—
Issuance of ESPP shares	2	—	—	2	—	—
Other noncontrolling interests activity	(1)	—	—	—	—	(1)
Net income	56	—	54	—	—	2
Other comprehensive loss, net of tax	(4)	—	—	—	(4)	—
Balance at September 30, 2018	$ 1,634	$ 2,175	$ 1,199	$ (817)	$ (938)	$ 15

Dollars in millions	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at December 31, 2017	$ 1,197	$ 2,091	$ 854	$ (818)	$ (922)	$ (8)
Cumulative effect of change in accounting policy, net of tax of $6	144	—	144	—	—	—
Adjusted balance at January 1, 2018	1,341	2,091	998	(818)	(922)	(8)
Consolidation and acquisition of noncontrolling interests in Aspire entities	74	74	—	—	—	—
Share-based compensation	8	8	—	—	—	—
Common stock issued upon exercise of stock options	2	2	—	—	—	—
Dividends declared to shareholders	(33)	—	(33)	—	—	—
Repurchases of common stock	(3)	—	—	(3)	—	—
Issuance of ESPP shares	4	—	—	4	—	—
Other noncontrolling interests activity	—	—	—	—	—	—
Net income	257	—	234	—	—	23
Other comprehensive loss, net of tax	(16)	—	—	—	(16)	—
Balance at September 30, 2018	$ 1,634	$ 2,175	$ 1,199	$ (817)	$ (938)	$ 15

AOCL, net of tax

	September 30,	
Dollars in millions	2019	2018
Accumulated foreign currency translation adjustments, net of tax of $1 and $1	$ (352)	$ (288)
Pension and post-retirement benefits, net of tax of $210 and $224	(581)	(642)
Fair value of derivatives, net of tax of $6 and $0	(21)	(8)
Total AOCL	$ (954)	$ (938)

Changes in AOCL, net of tax, by component

Dollars in millions	Accumulated foreign currency translation adjustments	Accumulated pension liability adjustments	Changes in fair value of derivatives	Total
Balance at December 31, 2018	$ (304)	$ (592)	$ (14)	$ (910)
Other comprehensive income adjustments before reclassifications	(48)	—	(17)	(65)
Amounts reclassified from AOCL	—	11	10	21
Net other comprehensive income (loss)	(48)	11	(7)	(44)
Balance at September 30, 2019	$ (352)	$ (581)	$ (21)	$ (954)

Dollars in millions	Accumulated foreign currency translation adjustments	Accumulated pension liability adjustments	Changes in fair value of derivatives	Total
Balance at December 31, 2017	$ (259)	$ (660)	$ (3)	$ (922)
Other comprehensive income adjustments before reclassifications	(34)	—	(8)	(42)
Amounts reclassified from AOCL	5	18	3	26
Net other comprehensive income (loss)	(29)	18	(5)	(16)
Balance at September 30, 2018	$ (288)	$ (642)	$ (8)	$ (938)

Reclassifications out of AOCL, net of tax, by component

	Nine Months Ended September 30,		
Dollars in millions	2019	2018	Affected line item on the Condensed Consolidated Statements of Operations
Accumulated foreign currency adjustments			
Reclassification of foreign currency adjustments	$ —	$ (5)	Gain on consolidation of Aspire entities
Tax benefit	—	—	Provision for income taxes
Net accumulated foreign currency	$ —	$ (5)	Net of tax
Accumulated pension liability adjustments			
Amortization of actuarial loss (a)	$ (13)	$ (21)	See (a) below
Tax benefit	2	3	Provision for income taxes
Net pension and post-retirement benefits	$ (11)	$ (18)	Net of tax
Changes in fair value for derivatives			
Foreign currency hedge and interest rate swap settlements	$ (10)	$ (3)	Other non-operation income (expense)
Tax benefit	—	—	Provision for income taxes
Net changes in fair value of derivatives	$ (10)	$ (3)	Net of tax

(a) This item is included in the computation of net periodic pension cost. See Note 11 to our condensed consolidated financial statements for further discussion.

As a result of the Tax Cuts and Jobs Act of 2017, certain income tax effects related to items in AOCL have been stranded in AOCL, and we did not elect to reclassify these stranded tax effects to retained earnings. The tax effects remaining in AOCL are released only when all related units of account are liquidated, sold or extinguished.

Note 18. Share Repurchases

Withheld to Cover Program

We have in place a "withheld to cover" program, which allows us to withhold common shares from employees in connection with the settlement of income tax and related benefit withholding obligations arising from the issuance of share-based equity awards under the KBR, Inc. 2006 Stock and Incentive Plan.

The table below presents information on our share repurchases activity under these programs:

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Number of Shares	Average Price per Share	Dollars in Millions	Number of Shares	Average Price per Share	Dollars in Millions
Withheld to cover shares	16,534	$ 25.62	1	190,402	$ 20.47	$ 4

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Number of Shares	Average Price per Share	Dollars in Millions	Number of Shares	Average Price per Share	Dollars in Millions
Withheld to cover shares	924	$ 19.37	—	171,530	$ 15.71	$ 3

Note 19. 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 September 30,		Nine Months Ended September 30,	
Shares in millions	2019	2018	2019	2018
Basic weighted average common shares outstanding	141	141	141	140
Stock options and restricted shares	1	—	—	1
Diluted weighted average common shares outstanding	142	141	141	141

For purposes of applying the two-class method in computing income per share, there were $0.4 million and $1.1 million net earnings allocated to participating securities, or a negligible amount per share and $0.01 per share, for the three and nine months ended September 30, 2019, respectively. Net earnings allocated to participating securities for the three and nine months ended September 30, 2018 were $0.4 million and $1.5 million, or a negligible amount per share and $0.01 per share, respectively. The diluted income per share calculation did not include 1.0 million and 1.3 million antidilutive weighted average shares for the three and nine months ended September 30, 2019, respectively. The diluted income per share calculation did not include 1.4 million and 1.6 million antidilutive weighted average shares for the three and nine months ended September 30, 2018, respectively.

Note 20. Financial Instruments and Risk Management

Foreign currency risk. We conduct business globally in numerous currencies and are therefore exposed to foreign currency fluctuations. We may use derivative instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. We do not use derivative instruments for speculative trading purposes. We generally utilize foreign exchange forwards and currency option contracts to hedge exposures associated with forecasted future cash flows and to hedge exposures present on our balance sheet.

As of September 30, 2019, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge balance sheet exposures was $59 million, all of which had durations of 21 days or less. We also had approximately

$4 million (gross notional value) of cash flow hedges which had durations of 10 months or less. The cash flow hedges are primarily related to the British Pound.

The fair value of our balance sheet and cash flow hedges included in "Other current assets" and "Other current liabilities" on our condensed consolidated balance sheets was immaterial at September 30, 2019, and December 31, 2018. The fair values of these derivatives are considered Level 2 under ASC 820, Fair Value Measurement, as they are based on quoted prices directly observable in active markets.

The following table summarizes the recognized changes in fair value of our balance sheet hedges offset by remeasurement of balance sheet positions. These amounts are recognized in our condensed consolidated statements of operations for the periods presented. The net of our changes in fair value of hedges and the remeasurement of our assets and liabilities is included in "Other non-operating income (expense)" on our condensed consolidated statements of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gains (losses) dollars in millions	2019	2018	2019	2018
Balance Sheet Hedges - Fair Value	$ —	$ (1)	$ —	$ —
Balance Sheet Position - Remeasurement	3	(1)	8	(7)
Net	$ 3	$ (2)	$ 8	$ (7)

Interest rate risk. The Company uses interest rate swaps to reduce interest rate risk and to manage net interest expense. On October 10, 2018 we entered into interest rate swap agreements with a notional value of $500 million to manage the interest rate exposure on our variable rate loans. By entering into swap agreements, the Company converted the LIBOR rate based liability into a fixed rate liability for a four year period. Under the swap agreements, the Company receives one month LIBOR rate and pays monthly a fixed rate of 3.055% for the term of the swaps. The fair value of the interest rate swaps at September 30, 2019, was $25 million of which $7 million is included in "Other current liabilities" and $18 million is included "Other liabilities". The unrealized net losses on these interest rate swaps was $25 million and included in "AOCL" as of September 30, 2019. The fair value of the interest rate swaps at December 31, 2018 was $12 million of which $3 million is included in "Other current liabilities" and $9 million is included in "Other liabilities". The unrealized net losses on these interest rate swaps was $12 million and included in "AOCL" as of December 31, 2018.

Note 21. Impact on Previously Issued Financial Statements for the Correction of an Error

During the second quarter ended June 30, 2019, we identified and corrected immaterial errors affecting previously issued financial statements related to the historical recognition of equity earnings associated with our interest in an unconsolidated joint venture in our ES business segment. These errors were primarily due to the impact of improperly calculated gains and losses on foreign currency transactions from 2013 through the first quarter of 2019.

As of March 31, 2019, the cumulative error for all periods previously reported was an overstatement of net income of approximately $23 million impacting “Equity in and advances to unconsolidated affiliates” in our consolidated balance sheets and “Equity in earnings of unconsolidated affiliates” in our consolidated statements of operations. The errors had no impact on our previously reported cash flows. We assessed the materiality, both quantitatively and qualitatively, in accordance with the SEC’s SAB No. 99 and SAB No. 108, and concluded these errors were not material to any of our previously issued quarterly or annual financial statements. In order to correctly present the errors noted above, previously issued financials statements have been revised and are presented as “As Corrected” in the tables below.

The effect of the above corrections on the consolidated statement of operations for three and nine months ended September 30, 2018 are as follow:

	Three Months Ended September 30, 2018		
Revised Consolidated Statement of Operations Amounts:	As Previously Reported	Adjustments	As Corrected
Equity in earnings of unconsolidated affiliates	$ 21	$ (4)	$ 17
Operating income	$ 103	$ (4)	$ 99
Income before income taxes and noncontrolling interests	$ 82	$ (4)	$ 78
Net income	$ 60	$ (4)	$ 56
Net income attributable to KBR	$ 58	$ (4)	$ 54
Net income attributable to KBR per share:			
Basic	$ 0.41	$ (0.03)	$ 0.38
Diluted	$ 0.41	$ (0.03)	$ 0.38
Other Comprehensive Income (loss), net of tax			
Foreign currency translation adjustments	$ (9)	$ —	$ (9)
Change in fair value of derivatives	$ (1)	$ 1	$ —
Other comprehensive income (loss), net of tax	$ (5)	$ 1	$ (4)
Comprehensive income	$ 55	$ (3)	$ 52
Comprehensive income attributable to KBR	$ 53	$ (3)	$ 50

	Nine Months Ended September 30, 2018		
Revised Consolidated Statement of Operations Amounts:	As Previously Reported	Adjustments	As Corrected
Equity in earnings of unconsolidated affiliates	$ 54	$ (4)	$ 50
Operating income	$ 382	$ (4)	$ 378
Income before income taxes and noncontrolling interests	$ 335	$ (4)	$ 331
Net income	$ 261	$ (4)	$ 257
Net income attributable to KBR	$ 238	$ (4)	$ 234
Net income attributable to KBR per share:			
Basic	$ 1.68	$ (0.02)	$ 1.66
Diluted	$ 1.68	$ (0.02)	$ 1.66
Other Comprehensive Income (loss), net of tax			
Foreign currency translation adjustments	$ (32)	$ 3	$ (29)
Change in fair value of derivatives	$ (5)	$ —	$ (5)
Other comprehensive income (loss), net of tax	$ (19)	$ 3	$ (16)
Comprehensive income	$ 242	$ (1)	$ 241
Comprehensive income attributable to KBR	$ 219	$ (1)	$ 218

Note 22. Recent Accounting Pronouncements

New accounting pronouncements requiring implementation in future periods are discussed below.

In November 2018, the FASB issued ASU No. 2018-18, Clarifying the Interaction Between Topic 808 and Topic 606 which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. ASU No. 2018-18 is effective for interim and annual reporting periods beginning after December 15, 2019. We do not expect the adoption of ASU No. 2018-18 to have a material impact on our financial position, results of operations or cash flows.

In October 2018, the FASB issued ASU No. 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities. This ASU amends the guidance for determining whether a decision-making fee is a variable interest. ASU No. 2018-17 is effective for interim and annual reporting periods beginning after December 15, 2019. We do not expect the adoption of ASU No. 2018-17 to have a material impact on our financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU requires customers in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. ASU No. 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We do not expect the adoption of ASU No. 2018-15 to have a material impact on our financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU amends ASC 715 to add, remove and clarify certain disclosure requirements related to defined benefit pension and other postretirement plans. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020, with early adoption permitted. We do not expect the adoption of ASU No. 2018-14 to have any impact on our financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU amends ASC 820 to add, remove and modify certain disclosure requirements for fair value measurements. For example, public companies will now be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We do not expect the adoption of ASU No. 2018-13 to have any impact on our financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 from the goodwill impairment test. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted, for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect adoption of this ASU to be material to our ongoing financial reporting or on known trends, demands, uncertainties and events in our business.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable supportable forecast and is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for annual periods after December 15, 2018, including interim periods within those annual periods. We are currently in the process of assessing the impact of this ASU on our financial statements. We have not yet determined the effect of the standard on our ongoing financial reporting or the future impact of adoption on known trends, demands, uncertainties and events in our business.

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

Introduction

The purpose of MD&A is to disclose 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, accompanying notes, and our 2018 Annual Report on Form 10-K.

Overview

Our business is organized into three core and two non-core business segments supporting the government services and hydrocarbons markets as follows:

Core business segments

- Government Solutions
- Technology Solutions
- Energy Solutions

Non-core business segments

- Non-strategic Business
- Other

See additional information on our business segments, including detail with respect to changes to our reportable segments that became effective this quarter, in Notes 1 and 2 to our condensed consolidated financial statements.

Business Environment and Trends

Our business portfolio includes full life-cycle professional services, project solutions and technologies delivered across two primary verticals, government and hydrocarbons, aligned with the following:

- Early Project Advisory
- Project Definition
- Project Delivery
- Operations & Maintenance

Our core business capabilities and offerings include research and development, feasibility and solutions development, specialized technical consulting, systems integration, engineering and design services, highly specialized mission and logistics support solutions, process technologies and solutions, program management, construction, commissioning and startup services, and asset operations and maintenance services. We strive to deliver high quality solutions and services to support our clients' success today and to help them strengthen their strategic position for the future.

The global outlook for government services is favorable, with increased defense and space spending budgets driven in part by political instability, military conflicts, aging platforms and infrastructure, and the need for technology upgrades. We expect continued opportunities to provide enabling solutions and technologies to high impact, mission critical work. These opportunities continue to drive best value selections and customer confidence in the enterprise that we have built through our strategic acquisitions and organic growth. Internationally, the majority of our government services work is performed through private financed initiatives with the U.K. MoD under long-term firm contracts. These contracts are expected to provide stable, predictable earnings and cash flow over the program life, with our largest PFI extending through 2041.

We expect that a majority of the U.S. government business that we seek in the foreseeable future will be awarded through a competitive bidding process that may be impacted by delays, protests and other challenging dynamics. Additionally, our business may be affected by changes in the overall level of government spending and the alignment of our service and product offerings and capabilities with current and future budget priorities.

In the hydrocarbons sector, demand for our technologies, solutions and services is highly correlated to the level of capital and operating expenditures of our customers and prevailing market conditions. Significant volatility in commodity prices in recent years has resulted in many of our hydrocarbons customers taking steps to defer, suspend or terminate capital expenditures, resulting in delayed or reduced volumes of business across the sector. Recently, the combination of a growing global economy, technological development, and abundant sources of competitively priced feedstock are driving an increase in capital investment opportunities being evaluated and funded by our hydrocarbons customers. For example, we continue to see opportunities for midstream LNG expansion and greenfield projects to satisfy future LNG demand driven in large part by environmental policies promoting a transition from coal to cleaner burning natural gas. Additionally, downstream projects such as petrochemical, chemical and fertilizer producers benefit from low feedstock prices and increasing global development and consumer demand. From conceptual development studies to project delivery and asset management services, we seek to collaborate with our customers to meet the demands of the global economy.

Overall, we believe we have a balanced portfolio of global professional services, program delivery and technologies across the government services and hydrocarbons markets. We believe our increased mix of recurring government services and hydrocarbons services offers stability and predictability that enables us to be highly selective and disciplined in our pursuit of EPC projects across hydrocarbons markets.

Three months ended September 30, 2019 compared to the three months ended September 30, 2018

The information below is an analysis of our consolidated results for the three months ended September 30, 2019. See Results of Operations by Business Segment below for additional information describing the performance of each of our reportable segments.

Revenues

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Revenues	$ 1,425	$ 1,278	$ 147	12%

The increase in consolidated revenues was driven by growth across all of our business segments. Our ES business led the growth driven by the ramp up on recently awarded projects in the U.S. and internationally. TS delivered consistent growth, and GS continued to benefit from new program awards and on-contract expansion.

Gross Profit

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Gross profit	$ 169	$ 149	$ 20	13%

The increase in gross profit was primarily caused by the growth in revenue across all of our businesses as well as close-out activities on a power project in our Non-strategic Business partially offset by changes in project and product mix in the current quarter.

Equity in Earnings of Unconsolidated Affiliates

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Equity in earnings of unconsolidated affiliates	$ 9	$ 17	$ (8)	(47)%

The decrease in equity in earnings of unconsolidated affiliates was primarily due to the successful completion of a significant EPC project joint venture in early 2019 resulting in earnings that did not recur in 2019 as well as lower activity due to the wind down of a joint venture in Latin America. These decreases were partially offset by a nonrecurring EAC increase and schedule delays on the Ichthys LNG project in the third quarter of 2018 in our Energy Solutions business segment.

Selling, General and Administrative Expenses

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Selling, general and administrative expenses	$ (75)	$ (64)	$ 11	17%

Selling, general and administrative expenses in the nine months ended September 30, 2019 was $11 million higher than the same period in 2018 primarily related to an increase in corporate costs including increased IT, rebranding and other general corporate expenses.

Interest Expense

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Interest expense	$ (25)	$ (20)	$ 5	25%

The increase in interest expense was primarily due to increased fixed-rate borrowings as a result of the Convertible Notes in November 2018 partially offset by lower outstanding borrowings and weighted-average interest rates on our variable-rate debt. See Note 12 to our condensed consolidated financial statements for further discussion.

Other Non-operating Income (Loss)

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Other non-operating income (loss)	$ 3	$ (1)	$ 4	400%

Other non-operating income (loss) includes interest income, foreign exchange gains and losses and other non-operating income or expense items. The increase is driven by favorable impacts of currency movements in the British Pound on certain foreign currency transactions in the U.K. for the three months ended September 30, 2019.

Provision for Income Taxes

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Income before provision for income taxes and noncontrolling interests	$ 82	$ 78	$ 4	5%
(Provision) for income taxes	$ (24)	$ (22)	$ 2	9%

Our provision for income taxes for the three months ended September 30, 2019 reflects a 30% tax rate as compared to a 28% tax rate for the three months ended September 30, 2018. See Note 13 to our condensed consolidated financial statements for discussion of our effective tax rates.

Net Income Attributable to Noncontrolling Interests

	Three Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Net income attributable to noncontrolling interests	$ (2)	$ (2)	$ —	—%

Results of Operations by Business Segment

Dollars in millions	Three Months Ended September 30, 2019	2018
Revenues		
Government Solutions	$ 978	$ 928
Technology Solutions	96	81
Energy Solutions	351	268
Subtotal	1,425	1,277
Non-strategic Business	—	1
Total revenues	$ 1,425	$ 1,278
Gross profit		
Government Solutions	$ 110	$ 98
Technology Solutions	30	29
Energy Solutions	22	27
Subtotal	162	154
Non-strategic Business	7	(5)
Total gross profit	$ 169	$ 149
Equity in earnings of unconsolidated affiliates		
Government Solutions	$ 7	$ 8
Energy Solutions	2	7
Subtotal	9	15
Non-strategic Business	—	2
Total equity in earnings of unconsolidated affiliates	$ 9	$ 17
Total selling, general and administrative expenses	$ (75)	$ (64)
Acquisition and integration related costs	—	(1)
Gain on disposition of assets	$ 1	$ —
Gain on consolidation of Aspire subcontracting entities	$ —	$ (2)
Total operating income	$ 104	$ 99

Government Solutions

GS revenues increased by $50 million, or 5%, to $978 million in the third quarter of 2019, compared to $928 million in the third quarter of 2018. This increase was primarily driven by the start-up of new projects and increased scope on existing programs in each of our service lines.

GS gross profit increased by $12 million, or 12%, to $110 million in the third quarter of 2019 compared to $98 million in the third quarter of 2018. This increase was primarily driven by higher volume and higher profitability from our PFI projects in the U.K partially offset by changes in overall project mix.

GS equity in earnings of unconsolidated affiliates decreased by $1 million, or 13%, to $7 million in the third quarter of 2019 compared to $8 million in the third quarter of 2018. Equity earnings is comprised primarily of our share of earnings on Aspire Defence Limited and the U.K. Roads project joint ventures.

Technology Solutions

TS revenues increased by $15 million, or 19%, to $96 million in the third quarter of 2019 compared to $81 million in the third quarter of 2018, primarily due to higher proprietary equipment and catalyst sales.

TS gross profit increased by $1 million, or 3%, to $30 million in the third quarter of 2019 compared to $29 million in the third quarter of 2018 primarily due to a higher volume of proprietary equipment sales at lower margins.

Energy Solutions

ES revenues increased by $83 million, or 31%, to $351 million in the third quarter of 2019, compared to $268 million in the third quarter of 2018. The increase was primarily due to the ramp up of recently awarded projects along the U.S. Gulf Coast and expansion of services internationally.

ES gross profit decreased by $5 million, or 19%, to $22 million in the third quarter of 2019, compared to $27 million in the third quarter of 2018. The decrease was primarily due to the non-recurrence of favorable project close-out benefits on two projects completed in the third quarter 2018 as well as the ramp up of new projects at lower gross profit margins.

ES equity in earnings of unconsolidated affiliates decreased by $5 million, or 71%, to $2 million in the third quarter of 2019, compared to earnings of $7 million in the third quarter of 2018. The decrease is primarily due to the successful completion and close-out of a significant U.K. project joint venture in early 2019 resulting in earnings that did not recur in 2019. The decrease was partially offset by the non-recurrence of an EAC increase and schedule delay on the Ichthys LNG project in the third quarter of 2018.

Non-strategic Business

Non-strategic Business earned no revenues in the third quarter of 2019, compared to $1 million in the third quarter of 2018.

Non-strategic Business earned $7 million gross profit in the third quarter of 2019 primarily due to favorable project close-out activities in the third quarter of 2019, compared to a gross loss of $5 million in the third quarter of 2018 due to the settlement of a legacy legal matter. All Non-Strategic Business projects are substantially complete as of September 30, 2019. We continue to finalize project close-out activities and negotiate the settlement of claims and various other matters associated with these projects.

Non-strategic Business equity in earnings of unconsolidated affiliates decreased by $2 million in third quarter of 2019 as compared to the third quarter of 2018 due to the wind down of operating activities of a joint venture in Latin America. See Note 2 to our condensed consolidated financial statements for a discussion of the reclassification of certain operations between our Energy Solutions and Non-strategic Business segments.

Changes in Estimates

Information relating to our changes in estimates is discussed in Note 2 to our condensed consolidated financial statements.

Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

The information below is an analysis of our consolidated results for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018. See *Results of Operations by Business Segment* below for additional information describing the performance of each of our reportable segments.

Revenues

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Revenues	$ 4,187	$ 3,583	$ 604	17%

The increase in consolidated revenues was primarily driven by strong organic growth within our GS businesses, acquisitive revenues from SGT acquired in April 2018, new awards in our ES business, and an increase in proprietary equipment volume for our TS business segment.

Gross Profit

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Gross profit	$ 482	$ 427	$ 55	13%

The increase in gross profit was primarily driven by growth in revenue as well as favorable benefits on the close-out of a completed project in our Non-strategic Business partially offset by changes in project and product mix as compared to the nine months ended September 30, 2018.

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Equity in Earnings of Unconsolidated Affiliates

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Equity in earnings of unconsolidated affiliates	$ 24	$ 50	$ (26)	(52)%

The decrease in equity in earnings of unconsolidated affiliates was primarily due to reduced activity and an unfavorable legal ruling on our Ichthys LNG project recorded in early 2019 and an impairment of an equity method investment in Latin America also recorded in early 2019. See Note 9 to our condensed consolidated financial statements for more information on the Ichthys LNG project.

Selling, General and Administrative Expenses

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Selling, general and administrative expenses	$ (241)	$ (207)	$ 34	16%

Selling, general and administrative expenses in the nine months ended September 30, 2019 was $34 million higher than the same period in 2018 primarily related to an increase in corporate costs including increased IT, rebranding and other general corporate expenses.

Acquisition and Integration Related Costs

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Acquisition and integration related costs	$ (2)	$ (5)	$ (3)	(60)%

The decrease in acquisition and integration related costs was primarily due to substantial completion of acquisition and integration activities in early 2019.

Gain on Consolidation of Aspire Entities

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Gain on consolidation of Aspire entities	$ —	$ 113	$ (113)	(100)%

The gain on consolidation of Aspire entities was recognized upon the consolidation of the Aspire Defence subcontracting entities for the nine months ended September 30, 2018. See Note 4 to our condensed consolidated financial statements for additional information.

Interest Expense

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Interest expense	$ (76)	$ (43)	$ 33	77%

The increase in interest expense was primarily due to increased fixed-rate borrowings as a result of the Convertible Notes issued in November 2018 partially offset by lower outstanding borrowings and weighted-average interest rates on our variable-rate debt. See Note 12 to our condensed consolidated financial statements for further discussion.

Other Non-operating Income (Loss)

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Other non-operating income (loss)	$ 10	$ (4)	$ 14	350%

Other non-operating income (loss) includes interest income, foreign exchange gains and losses and other non-operating income and expense items. The increase in other non-operating income was primarily due to the impact of favorable movements in the British Pound on certain foreign currency transactions in the U.K.

Provision for Income Taxes

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Income before provision for income taxes and noncontrolling interests	$ 208	$ 331	$ (123)	(37)%
Provision for income taxes	$ (58)	$ (74)	$ (16)	(22)%

Our provision for income taxes for the nine months ended September 30, 2019, reflects a 28% tax rate as compared to a 22% tax rate for the nine months ended September 30, 2018. The effective tax rate of 28% for the nine months ended September 30, 2019 was primarily impacted by the rate differential on our foreign earnings including equity losses for which no tax benefit is available. The effective tax rate of 22% for the nine months ended September 30, 2018 was impacted by a discrete tax expense as a result of obtaining control of the Aspire Defence subcontracting entities that was recorded at a lower rate than our estimated annual tax rate for 2018. See Note 13 to our condensed consolidated financial statements for further discussion on income taxes.

Net Income Attributable to Noncontrolling Interests

	Nine Months Ended September 30,			
			2019 vs. 2018	
Dollars in millions	2019	2018	$	%
Net income attributable to noncontrolling interests	$ (6)	$ (23)	$ (17)	(74)%

The decrease in net income attributable to noncontrolling interests was primarily due to the non-recurrence of the recognition of variable consideration associated with the successful completion and performance testing on a project in 2018.

Results of Operations by Business Segment

Dollars in millions	Nine Months Ended September 30, 2019	2018
Revenues		
Government Solutions	$ 2,986	$ 2,473
Technology Solutions	281	215
Energy Solutions	919	894
Subtotal	4,186	3,582
Non-strategic Business	1	1
Total revenues	$ 4,187	$ 3,583
Gross profit (loss)		
Government Solutions	$ 312	$ 253
Technology Solutions	83	77
Energy Solutions	80	102
Subtotal	475	432
Non-strategic Business	7	(5)
Total gross profit	$ 482	$ 427
Equity in earnings of unconsolidated affiliates		
Government Solutions	$ 21	$ 22
Energy Solutions	16	32
Subtotal	37	54
Non-strategic Business	(13)	(4)
Total equity in earnings of unconsolidated affiliates	$ 24	$ 50
Total selling, general and administrative expenses	$ (241)	$ (207)
Acquisition and integration related costs	$ (2)	$ (5)
Gain on disposition of assets	$ 11	$ —
Gain on consolidation of Aspire subcontracting entities	$ —	$ 113
Total operating income	$ 274	$ 378

Government Solutions

GS revenues increased by $513 million, or 21%, to $3.0 billion in the nine months ended September 30, 2019, compared to $2.5 billion in the nine months ended September 30, 2018. This increase was primarily primarily driven by strong organic growth within our GS business primarily due to disaster recovery services provided in 2019 on our AFCAP IV project, expanded services and the startup of new programs, and revenues from SGT acquired in April 2018. See Note 4 to our condensed consolidated financial statements for more information on the acquisition of SGT.

GS gross profit increased by $59 million, or 23%, to $312 million in the nine months ended September 30, 2019, compared to $253 million in the nine months ended September 30, 2018. This increase was primarily due to revenue growth and higher profitability from the Aspire Defence project in the U.K.

GS equity in earnings of unconsolidated affiliates decreased by $1 million, or 5%, to $21 million in the nine months ended September 30, 2019, compared to $22 million in the nine months ended September 30, 2018. Equity earnings is comprised primarily of our share of earnings on Aspire Defence Limited.

Technology Solutions

TS revenues increased by $66 million, or 31%, to $281 million in the nine months ended September 30, 2019, compared to $215 million in the nine months ended September 30, 2018, primarily due to higher proprietary equipment sales.

TS gross profit increased by $6 million, or 8%, to $83 million in the nine months ended September 30, 2019, compared to $77 million in the nine months ended September 30, 2018, primarily driven by increased revenue volume at lower gross profit margins.

Energy Solutions

ES revenues increased by $25 million, or 3%, to $919 million in the nine months ended September 30, 2019, compared to $894 million in the nine months ended September 30, 2018. The increase was primarily due to the ramp up of recently awarded projects along the U.S. Gulf Coast and expansion of services internationally.

ES gross profit decreased by $22 million, or 22%, to $80 million in the nine months ended September 30, 2019, compared to $102 million in the nine months ended September 30, 2018. This decrease was primarily due to the non-recurrence of the recognition of variable consideration associated with the successful completion of an Australian LNG project in 2018.

ES equity in earnings of unconsolidated affiliates decreased by $16 million, or 50%, to $16 million in the nine months ended September 30, 2019, compared to earnings of $32 million in the nine months ended September 30, 2018. This decrease was primarily due to reduced activity and an unfavorable legal ruling on our Ichthys LNG project recorded in early 2019. See Note 9 to our condensed consolidated financial statements for more information on the Ichthys LNG project.

Non-strategic Business

Non-strategic Business revenues remained flat at $1 million for the nine months ended September 30, 2019 and 2018. Revenues in the Non-strategic Business were primarily associated with close-out activities on completed projects as we exit the business.

Non-strategic Business earned $7 million of gross profit in the nine months ended September 30, 2019 primarily due to favorable benefits on the close-out of a completed project in the U.S., compared to a gross loss of $5 million in the nine months ended September 30, 2018 primarily due to the settlement of a legacy legal matter.

Non-strategic Business equity in earnings of unconsolidated affiliates decreased by $9 million, or 225%, to a loss of $13 million in the nine months ended September 30, 2019, compared to a loss of $4 million in the nine months ended September 31, 2018 primarily due to an impairment charge associated with an equity method investment in Latin America. See Note 2 to our condensed consolidated financial statements for a discussion of the reclassification of certain operations between our Energy Solutions and Non-strategic Business segments.

Changes in Estimates

Information relating to our changes in estimates is discussed in Note 2 to our condensed consolidated financial statements. See Note 9 to our condensed consolidated financial statements for more information on the Ichthys JV.

Backlog of Unfilled Orders

Backlog generally represents the dollar amount of revenues we expect to realize in the future as a result of performing work on contracts and our pro-rata share of work to be performed by unconsolidated joint ventures. We generally include total expected revenues in backlog when a contract is awarded under a legally binding agreement. In many instances, arrangements included in backlog are complex, nonrepetitive and may fluctuate over the contract period due to the release of contracted work in phases by the customer. Additionally, nearly all contracts allow customers to terminate the agreement at any time for convenience. Where contract duration is indefinite and clients can terminate for convenience without compensating us for periods beyond the date of termination, backlog is limited to the estimated amount of expected revenues within the following twelve months. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract 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 the expected value of our services in backlog.

We define backlog, as it relates to U.S. government contracts, as our estimate of the remaining future revenue from existing signed contracts over the remaining base contract performance period (including customer approved option periods) for which work scope and price have been agreed with the customer. We define funded backlog as the portion of backlog for which funding currently is appropriated, less the amount of revenue we have previously recognized. We define unfunded backlog as the total backlog less the funded backlog. Our GS backlog does not include any estimate of future potential delivery orders that might be awarded under our government-wide acquisition contracts, agency-specific indefinite delivery/indefinite quantity contracts, or other multiple-award contract vehicles nor does it include option periods that have not been exercised by the customer.

Within our GS business segment, we calculate estimated backlog for long-term contracts associated with the U.K. government's PFIs based on the aggregate amount that our client would contractually be obligated to pay us over the life of the project. We update our estimates of the future work to be executed under these contracts on a quarterly basis and adjust backlog if necessary.

We have included in the table below our proportionate share of unconsolidated joint ventures' estimated backlog. Since these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our proportionate share of backlog for projects related to unconsolidated joint ventures totaled $2.8 billion at September 30, 2019, and $3.0 billion at December 31, 2018. 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 $5.1 billion and $5.3 billion at September 30, 2019 and December 31, 2018, respectively.

The following table summarizes our backlog by business segment for the periods ended September 30, 2019, and December 31, 2018, respectively:

Dollars in millions	September 30, 2019	December 31, 2018
Government Solutions	$ 10,742	$ 11,005
Technology Solutions	474	594
Energy Solutions	3,426	1,896
Subtotal	14,642	13,495
Non-strategic Business	1	2
Total backlog	$ 14,643	$ 13,497

We estimate that as of September 30, 2019, 34% of our backlog will be executed within one year. Of this amount, 87% will be recognized in revenues on our condensed consolidated statement of operations and 13% will be recorded by our unconsolidated joint ventures. As of September 30, 2019, $48 million of our backlog relates to active contracts that are in a loss position.

As of September 30, 2019, 13% of our backlog was attributable to fixed-price contracts, 47% was attributable to PFIs and 40% of our backlog was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the individual components as either fixed-price or cost-reimbursable according to the composition of the contract; however, for smaller contracts, we characterize the entire contract based on the predominant component. As of September 30, 2019, $9.1 billion of our GS backlog was currently funded by our customers.

As of September 30, 2019, we had approximately $2.5 billion of priced option periods for U.S. government contracts that are not included in the backlog amounts presented above.

The difference between backlog of $14.6 billion and the remaining performance obligation as defined by ASC 606 of $11.2 billion is primarily due to our proportionate share of backlog related to unconsolidated joint ventures which is not included in our remaining performance obligation. See Note 3 to our condensed consolidated financial statements for discussion of the remaining performance obligation.

Transactions with Joint Ventures

We perform many of our projects through incorporated and unincorporated joint ventures. In addition to participating as a joint venture partner, we often provide engineering, procurement, construction, operations or maintenance services to the joint venture as a subcontractor. Where we provide services to a joint venture that we control and therefore consolidate for financial reporting purposes, we eliminate intercompany revenues and expenses on such transactions. In situations where we account for our interest in the joint venture under the equity method of accounting, we do not eliminate any portion of our subcontractor revenues or expenses. We recognize the profit on our services provided to joint ventures that we consolidate and joint ventures that we record under the equity method of accounting primarily using the percentage-of-completion method. See Note 10 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information. The information discussed therein is incorporated by reference into this Part I, Item 2.

Legal Proceedings

Information relating to various commitments and contingencies is described in Notes 14 and 15 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Liquidity and Capital Resources

ES services projects generally require us to provide credit support for our performance obligations to our customers in the form of letters of credit, surety bonds or guarantees. Our ability to obtain new project awards in the future may be dependent on our ability to maintain or increase our letter of credit and surety bonding capacity, which may be further dependent on the timely release of existing letters of credit and surety bonds. As the need for credit support arises, letters of credit will be issued under our $500 million PLOC or our $500 million Revolver under the Senior Credit Facility. Letters of credit may also be arranged with our banks on a bilateral, syndicated or other basis. We believe we have adequate letter of credit capacity under the Senior Credit Facility and bilateral lines, as well as adequate surety bond capacity under our existing lines to support our operations, and backlog for the next 12 months.

Cash generated from operations and the Senior Credit Facility are our primary sources of liquidity. Our operating cash flow can vary significantly from year to year and is affected by the mix, terms, timing and percentage of completion of our hydrocarbons services projects. Certain projects may receive cash in the early phases of our larger hydrocarbons services fixed-price projects, technology projects, and those of our consolidated joint ventures in advance of incurring related costs. On reimbursable contracts, we may utilize cash on hand or availability under the Senior Credit Facility to satisfy any periodic operating cash requirements for working capital, as we frequently incur costs and subsequently invoice our customers. We believe that existing cash balances, internally generated cash flows and availability under the Senior Credit Facility are sufficient to support our day-to-day domestic and foreign business operations for at least the next 12 months.

Cash and equivalents totaled $681 million at September 30, 2019, and $739 million at December 31, 2018 and consisted of the following:

Dollars in millions	September 30, 2019	December 31, 2018
Domestic U.S. cash	$ 222	$ 211
International cash	135	210
Joint venture and Aspire project cash	324	318
Total	$ 681	$ 739

Our cash balances are held in numerous accounts throughout the world to fund our global activities. Domestic cash relates to cash balances held by U.S. entities and is largely used to support project activities of those businesses as well as general corporate needs such as the payment of dividends to shareholders, repayment of debt and potential repurchases of our outstanding common stock.

Our international cash balances may be available for general corporate purposes but are subject to local restrictions, such as capital adequacy requirements and local obligations, including maintaining sufficient cash balances to support our underfunded U.K. pension plan and other obligations incurred in the normal course of business by those foreign entities. Repatriations of our undistributed foreign earnings are generally free of U.S. tax but may incur withholding and/or state taxes. In assessing the amount of cash to be repatriated, we consider our future U.S. and non-U.S. cash needs such as 1) our anticipated foreign working capital requirements, including funding of our U.K. pension plan, 2) the expected growth opportunities across all geographical markets, and 3) our plans to invest in strategic growth opportunities that may include acquisitions around the world, among other things. As of September 30, 2019, we have not changed our indefinite reinvestment decision on our undistributed earnings of our foreign subsidiaries.

Joint venture cash and Aspire Defence project cash balances reflect the amounts held by joint venture entities that we consolidate for financial reporting purposes. These amounts are limited to those entities' activities and are not readily available for general corporate purposes; however, portions of such amounts may become available to us in the future should there be a distribution of dividends to the joint venture partners including us. We expect that the majority of the joint venture cash balances will be utilized for the corresponding joint venture projects.

As of September 30, 2019, substantially all of our excess cash was held in commercial bank time deposits or interest bearing short-term investment accounts with the primary objectives of preserving capital and maintaining liquidity.

Cash Flows

Cash flows activities summary

	Nine Months Ended September 30,	
Dollars in millions	2019	2018
Cash flows provided by operating activities	$ 199	$ 36
Cash flows (used in) investing activities	(148)	(428)
Cash flows (used in) provided by financing activities	(97)	552
Effect of exchange rate changes on cash	(12)	(18)
(Decrease) increase in cash and equivalents	$ (58)	$ 142

Operating Activities. Cash flows from operating activities result primarily from earnings and are affected by changes in operating assets and liabilities which consist primarily of working capital balances for projects. Working capital levels vary from year to year and are primarily affected by the Company's volume of work. These levels are also impacted by the mix, stage of completion and commercial terms of hydrocarbon services projects. Working capital requirements also vary by project depending on the type of client and location throughout the world. Most contracts require payments as the projects progress. Additionally, certain projects receive advance payments from clients. A normal trend for these projects is to have higher cash balances during the initial phases of execution which then decline to equal project earnings at the end of the construction phase. As a result, our cash position is reduced as customer advances are worked off, unless they are replaced by advances on other projects.

The primary components of our working capital accounts are accounts receivable, contract assets, accounts payable and contract liabilities. These components are impacted by the size and changes in the mix of our cost reimbursable versus fixed price projects, and as a result, fluctuations in these components are not uncommon in our business.

Cash provided by operations totaled $199 million in the first nine months of 2019 as compared to net income of $150 million. The difference primarily results from net changes in working capital balances for projects as discussed below:

- The $123 million unfavorable cash flow impact related to accounts receivable was primarily related to increased billing volume due to the ramp up of recently awarded cost-reimbursable and EPC projects within our ES business segment.
- The $52 million unfavorable cash flow impact related to contract assets was largely attributable to higher activity in our ES business segment as well as increased sales in our TS business segment.
- The $83 million favorable cash flow impact related to increased accounts payable on several projects in the U.S. and Middle East in our ES business segment as well as various projects in our TS business segment.
- The $82 million favorable cash flow impact related to contract liabilities was primarily due to advances related to growth and ramp up of new EPC and services projects primarily in the U.S. in our ES business segment.
- In addition, we received distributions of earnings from our unconsolidated affiliates of $64 million and contributed $31 million to our pension funds in the first nine months of 2019.

Cash provided by operations totaled $36 million in the first nine months of 2018 primarily resulting from the non-cash gain on consolidation of Aspire subcontracting entities of $113 million and net unfavorable changes of $139 million in working capital balances for projects as discussed below:

- Accounts receivable unfavorable cash flow impact was primarily related to increases in accounts receivable in our GS U.S. operations, increases in accounts receivable in the consolidated Aspire Defence subcontracting entities, since the date we obtained control, and increases in our ES business segment.
- Contract assets unfavorable cash flow impact in the first nine months in 2018 was primarily due to increases in contract assets related to various projects in our ES business segment, partially offset by decreases in contract assets in our TS and GS businesses.
- Accounts payable favorable cash flow impact in the first nine months in 2018 was primarily related to an increase in accounts payable related to our consolidated Aspire Defence subcontracting entities, since the date we obtained control and growth in our business on various other U.S. government projects. This increase was partially offset by decreases in accounts payable related to our ES business segment.
- Contract liabilities unfavorable cash flow impact in the first nine months in 2018 was primarily related to workoff on projects nearing completion within our ES business segment and various projects in our GS business segment.
- We received distributions of earnings from our unconsolidated affiliates of $16 million and contributed $30 million to our pension funds in the first nine months in 2018.

Investing Activities. Cash used in investing activities totaled $148 million in the first nine months of 2019 and was primarily due to investment in JKC. See Note 9 to our condensed consolidated financial statements for discussion of the Ichthys Project and our investment contributions to JKC.

Cash used in investing activities totaled $428 million in the first nine months of 2018 and was primarily due to the acquisition of SGT and investment contributions to JKC, partially offset by the incremental cash resulting from the consolidation of the Aspire Defence subcontracting entities.

Financing Activities. Cash used in financing activities totaled $97 million in the first nine months of 2019 and was primarily due to $54 million in payments on borrowings and $34 million for dividend payments to common shareholders.

Cash provided by financing activities totaled $552 million in the first nine months of 2018 and primarily includes $1.1 billion in borrowings on Term Loans A and B, $250 million in borrowings from the Revolver, offset by $605 million of payments on borrowings, $47 million in debt issuance costs, $56 million to acquire the noncontrolling interest in the Aspire Defence subcontracting entities and the remaining 25% noncontrolling interest in one of our joint ventures, and $34 million for dividend payments to common shareholders.

Future sources of cash. We believe that future sources of cash include cash flows from operations, cash derived from working capital management, and cash borrowings under the Senior Credit Facility.

Future uses of cash. We believe that future uses of cash include working capital requirements, funding of recognized project losses, joint venture capital calls, capital expenditures, dividends, pension funding obligations, repayments of borrowings under our Senior Credit Facility, share repurchases and strategic investments including acquisitions. Our capital expenditures will be focused primarily on facilities and equipment to support our businesses. In addition, we will use cash to make payments under operating leases and various other obligations, including potential litigation payments, as they arise.

Other factors potentially affecting liquidity

Ichthys LNG Project. As discussed in Note 9 to our condensed consolidated financial statements, JKC included in its project estimates-at-completion significant revenues associated with unapproved change orders and claims against the client as well as estimated recoveries of claims against suppliers and subcontractors. The client reserved their contractual rights on certain amounts previously funded to JKC and is currently seeking recoveries of those amounts. The client continues to withhold payment for certain costs which JKC believes were reimbursable under the terms of the Ichthys LNG contract. We have funded JKC for our proportionate share of the capital requirements until these matters are resolved.

In addition, JKC incurred substantial costs to complete the Power Plant under the fixed price portion of the Ichthys LNG contract. JKC believes these costs are recoverable from the Consortium who abandoned their contractual obligation to complete the Power Plant as the original subcontractor. We have initiated arbitrations and other legal proceedings to recover these costs which may take several years to resolve. As a result, we funded JKC for our proportionate share of the capital requirements to complete the Power Plant as these legal proceedings progress.

During the nine months ended September 30, 2019, we made investment contributions to JKC of approximately $141 million to fund our proportionate share of the project execution activities. During 2018, we made investment contributions to JKC of approximately $344 million to fund our proportionate share of the project execution activities. The project execution activities have now been completed and were within our forecasted contributions $500 million. JKC's obligations to the client are guaranteed on a joint and several basis by the joint venture partners. To the extent our joint venture partners are unable to complete their obligations, we could be exposed to additional funding requirements above our 30% ownership interest. Negotiations and legal proceedings with the client and the subcontractors are ongoing, the goal of which is to minimize these expected outflows.

As of September 30, 2019, we had $164 million in letters of credit outstanding in support of performance and warranty guarantees provided to the client. The performance and warranty letters of credit have been extended to February 2021 to allow for the various disputes to be resolved.

U.K. pension obligation. We recognized on our balance sheet a funding deficit of $192 million (measured as the difference between the fair value of plan assets and the projected benefit obligation) for our frozen defined benefit pension plans. The total amount of employer pension contributions paid for the nine months ended September 30, 2019 was $31 million and primarily related to our defined benefit plan in the U.K. The funding requirements for our U.K. pension plan are determined based on the U.K. Pensions Act of 1995. Annual minimum funding requirements are based on a binding agreement with the trustees of the U.K. pension plan that is negotiated on a triennial basis. The binding agreement also includes other assurances and commitments regarding the business and assets that support the U.K. pension plan. We agreed to a new triennial agreement with the trustees of the U.K. pension in June 2019. The agreement calls for minimum annual contributions of $44 million from 2019 through the next valuation. In the future, such pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors. A significant increase in our funding requirements for the U.K. pension plan could result in a material adverse impact on our financial position.

Credit Agreement and Senior Credit Facility

Information relating to our Credit Agreement and the Senior Credit Facility is described in Note 12 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Convertible Senior Notes

Information relating to our Convertible Senior Notes is described in Note 12 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Nonrecourse Project Debt

Information relating to our nonrecourse project debt is described in Note 12 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into various agreements providing performance guarantees to customers on behalf of certain unconsolidated and consolidated joint ventures. These agreements are entered into primarily to support the project execution commitments of these entities. Depending on the specific project joint venture, these performance guarantees have various expiration dates ranging from mechanical completion of the project being constructed to a period extending beyond contract completion in certain circumstances. For cost reimbursable contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee amount is the cost to complete the contracted work, less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. If costs exceed the remaining amounts payable under the contract, the company may have recourse to third parties, such as owners, joint venture partners, subcontractors or vendors for claims. In our joint venture arrangements, typically each joint venture partner indemnifies the other party for any liabilities incurred in excess of the liabilities the other party is obligated to bear under the respective joint venture agreement. See "Item 1A. Risk Factors" contained in Part I of our Annual Report on Form 10-K, which is incorporated herein by reference, for the year ended December 31, 2018, for information regarding our fixed-price contracts and operations through joint ventures and partnerships. Other than discussed in this report, we have not engaged in any material off-balance sheet financing arrangements through special purpose entities, and we have no material guarantees of the work or obligations of third parties.

Financial guarantees, made in the ordinary course of business in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. These arrangements generally require the borrower to pledge collateral to support the fulfillment of the borrower's obligation.

Letters of credit, surety bonds and guarantees. Information relating to our nonrecourse project debt is described in Note 12 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Critical Accounting Policies and Estimates

There have been no material changes to our discussion of critical accounting policies and estimates from those set forth in our 2018 Annual Report on Form 10-K, which is incorporated herein by reference, for the year ended December 31, 2018.

See Note 1, *Description of Company and Significant Accounting Policies,* to our condensed consolidated financial statements for a discussion of the potential impact of new accounting standards on our unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Cash and equivalents are deposited with major banks throughout the world. We invest excess cash and equivalents in short-term securities, primarily time deposits and money market funds, which carry a fixed rate of return. We have not incurred any credit risk losses related to deposits of our cash and equivalents.

Foreign Currency Risk. We are exposed to market risk associated with changes in foreign currency exchange rates primarily related to engineering and construction contracts. We attempt to limit exposure to foreign currency fluctuations in most of these contracts through provisions requiring the client to pay us in currencies corresponding to the currency in which cost is incurred. In addition to this natural hedge, we may use foreign exchange forward contracts and options to hedge material exposures when forecasted foreign currency revenues and costs are not denominated in the same currency and when efficient markets exist. These derivatives are generally designated as cash flow hedges and are carried at fair value. We do not enter into derivative financial instruments for trading purposes or make speculative investments in foreign currencies. We recorded a net gain of $3 million and net loss of $2 million, for the three months ended September 30, 2019 and 2018, respectively, and a net gain of $8 million and net loss of $7 million, for the nine months ended September 30, 2019 and 2018, respectively, related to the impact of our hedging activities associated with our operating exposures in "Other non-operating income (expense)" on our condensed consolidated statements of operations.

We use derivative instruments, such as foreign exchange forward contracts and options, to hedge foreign currency risk related to non-functional currency assets and liabilities on our balance sheet. Each period, these balance sheet hedges are marked to market through earnings and the change in their fair value is largely offset by remeasurement of the underlying assets and liabilities. The fair value of these derivatives was not material to our condensed consolidated balance sheet for the three months ended September 30, 2019. See Note 20 to our condensed consolidated financial statements and the information discussed therein is incorporated by reference into this Item 3.

Interest Rate Risk. We are exposed to market risk for changes in interest rates for the Revolver and term loan borrowings under the Senior Credit Facility. We had no borrowings outstanding under the Revolver and $939 million under the term loan portions of the Senior Credit Facility as of September 30, 2019. Borrowings under the Senior Credit Facility bear interest at variable rates as described in Note 12 to our condensed consolidated financial statements.

We manage interest rate exposure by entering into interest rate swap agreements where we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated on an agreed-upon notional principal amount. On October 10, 2018, we entered into interest rate swap agreements covering $500 million of notional value of our outstanding term loans. Under these swap agreements, we receive one month LIBOR rate and pay an average monthly fixed rate of 3.055% for the term of the swaps which expire in October 2022. The swap agreements were designated as cash flow hedges at inception in accordance with ASC Topic 815 Accounting for Derivative and Hedging Transactions. The total fair value of these derivative instruments was a liability of approximately $25 million as of September 30, 2019.

At September 30, 2019, we had fixed rate debt aggregating $850 million and variable rate debt aggregating $439 million, after taking into account the effects of the interest rate swaps. Our weighted average interest rate for the nine months ended September 30, 2019, was 5.33%. If interest rates were to increase by 50 basis points, pre-tax interest expense would increase by approximately $2 million in the next twelve months net of the impact from our swap agreements, based on outstanding borrowings as of September 30, 2019.

Item 4. Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, 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 September 30, 2019, 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 SEC 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.

Except as discussed below, there have been no changes in our internal control procedures over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the three months ended September 30, 2019.

Material Weakness in Internal Control Over Financial Reporting

During the three months ended September 30, 2019, management determined that it failed to sufficiently assess and implement controls to address risks affecting internal controls over financial reporting relating to the implementation of a new ERP system for a portion of our Government Solutions business segment during the quarter ended June 30, 2019. As part of the implementation, certain accounting activities previously performed in our overseas shared services function were transferred to our Government Solutions shared services function in the United States. Specifically, management failed to:

- effectively communicate changes in job responsibilities, including the responsibility for certain accounting reconciliations; and

- monitor whether account reconciliation controls operated effectively during the period.

As a result, account reconciliation controls were not operated consistently and effectively during the second quarter of 2019 for a portion of our Government Solutions business. While this deficiency in controls did not result in a material misstatement of our financial statements for the quarter ended June 30, 2019, we determined this deficiency represented a material weakness in internal control over financial reporting as of June 30, 2019.

Remediation of Reported Material Weakness

Management remediated the material weakness in internal control during the quarter ended September 30, 2019 by:

- clarifying job responsibilities, including the responsibility for certain account reconciliations;
- operating account reconciliation controls;
- implementing improved monitoring controls to validate the account reconciliation controls were operating; and
- testing the account reconciliation and monitoring controls to confirm they were operating effectively.

In our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2019. In light of the material weaknesses in our internal control over financial reporting described above that existed as of June 30, 2019, our Chief Executive Officer and Chief Financial Officer re-evaluated the conclusions regarding our disclosure controls and procedures for the quarter ended June 30, 2019 and concluded that our disclosure controls and procedures were not effective as of such date solely because of the material weakness in our internal control over financial reporting described above that existed at that time.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information relating to various commitments and contingencies is described in Notes 14 and 15 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part II, Item 1.

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, 2018.

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

(a) None.

(b) None.

(c) On February 25, 2014, our Board of Directors authorized a $350 million share repurchase program, which replaced and terminated the August 26, 2011 share repurchase program. The authorization does not specify an expiration date for the share repurchase program. The following is a summary of share repurchases of our common stock settled during the three months ended September 30, 2019.

Purchase Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Dollar Value of Maximum Number of Shares that May Yet Be Purchased Under the Plan
July 1 - 31, 2019	128	$ 19.72	—	$ 160,236,157
August 1 - 31, 2019	1,695	$ 24.81	—	$ 160,236,157
September 1 - 30, 2019	14,711	$ 25.77	—	$ 160,236,157

(1) Shares repurchased include shares acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from issuance of share-based equity awards under the KBR, Inc. 2006 Stock and Incentive Plan. Total shares acquired from employees during the three months ended September 30, 2019, was 16,534 shares at an average price of $25.62 per share.

Item 6. Exhibits

Exhibit Number	Description
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification 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 Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**10.27+	KBR Elective Deferral Plan, as restated effective September 1, 2019
***101.Def	Definition Linkbase Document
***101.Pre	Presentation Linkbase Document
***101.Lab	Labels Linkbase Document
***101.Cal	Calculation Linkbase Document
***101.Sch	Schema Linkbase Document
***101.Ins	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document contained in Exhibit 101

+	Management contracts or compensatory plans or arrangements
*	Filed with this Form 10-Q
**	Furnished with this Form 10-Q
***	Interactive data files

SIGNATURES

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/ Mark Sopp	/s/ Raymond L. Carney
Mark Sopp	**Raymond L. Carney**
Executive Vice President and Chief Financial Officer	**Vice President and Chief Accounting Officer**

Dated: October 31, 2019 Dated: October 31, 2019

KBR
ELECTIVE DEFERRAL PLAN

Restated September 1, 2019

TABLE OF CONTENTS

KBR ELECTIVE DEFERRAL PLAN

W I T N E S S E T H:

WHEREAS, the Board of Directors of Halliburton Company ("Halliburton") previously adopted the Halliburton Company Elective Deferral Plan, as most recently amended and restated prior to the Deconsolidation Date effective May 1, 2002, for the benefit of its employees and the employees of its subsidiaries to aid such employees in making more adequate provision for their retirement; and

WHEREAS, Halliburton took action on the Deconsolidation Date to split-off KBR, Inc. (the "Company") and its subsidiaries such that they ceased to be members of the Halliburton controlled group; and

WHEREAS, the Company desired to provide benefits for certain of its new employees including certain current employees who had previously participated in the HAL Plan; and

WHEREAS, pursuant to the terms of the HAL Plan, each Employer thereunder was liable for the benefits related to its employees, and the Company and the Employers hereunder continued to provide to such employees an opportunity to make deferrals of certain amounts, consistent with the provisions of Section 409A; and

WHEREAS, the provisions of the HAL Plan, as amended through the Deconsolidation Date, will remain in effect for all deferrals prior to the Deconsolidation Date; and

WHEREAS, the Company preserved the material terms of the HAL Plan as in effect on December 31, 2004 in order that the Grandfathered Plan qualify as a grandfathered plan for purposes of Section 409A; and

WHEREAS, certain provisions applicable solely to the Grandfathered Plan are preserved in Appendix A, for purposes of determining the terms applicable to amounts deferred under the Grandfathered Plan, which provisions shall be substituted for the corresponding provisions contained herein; and

WHEREAS, the Company previously amended and restated the Plan effective December 31, 2010, without making any changes to the material terms of the Grandfathered Plan; and

WHEREAS, the Company desires to make certain amendments to the Plan effective September 1, 2019, without making any changes to the material terms of the Grandfathered Plan.

NOW THEREFORE, the Plan, including the Grandfathered Plan, is hereby restated to include the terms set forth below, effective as of the Effective Date:

I.

Definitions and Construction

1.1 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.

(1) Act: The Employee Retirement Income Security Act of 1974, as amended.

(2) Affiliate: Any entity of which an aggregate of 50% or more of the ownership interest is owned of record or beneficially, directly or indirectly, by the Company or any other Affiliate.

(3) Base Salary: The base rate of cash compensation (inclusive of cash overtime pay) paid by the Employer to or for the benefit of a Participant for services rendered or labor performed while a Participant, including base pay (and overtime pay) a Participant could have received in cash in lieu of (a) deferrals pursuant to Section 3.1 and (b) elective contributions made on his or her behalf to any qualified plan maintained by the Employer or to any cafeteria plan under Section 125 of the Code maintained by the Employer.

(4) Bonus Compensation: With respect to any Participant for a Plan Year, remuneration based on calendar year performance under an annual incentive compensation plan maintained by the Employer that is payable to the Participant in cash.

(5) Code: The Internal Revenue Code of 1986, as amended.

(6) Committee: The administrative committee appointed by the Compensation Committee to administer the Plan.

(7) Compensation Committee: The Compensation Committee of the Directors.

(8) Company: KBR, Inc., or, only for amounts deferred under the HAL Plan and similar purposes, Halliburton Company.

(9) Credited Investment Return: The hypothetical gain or loss credited to a Participant's Deferral Account or Grandfathered Plan Account, as applicable, pursuant to the applicable provisions of Section 3.4(e).

(10) Deconsolidation Date: The date upon which the amount of the Company stock owned directly or indirectly by Halliburton Company was reduced to less than the amount required for Halliburton Company to control the Company within the meaning of Section 1504(a)(2) of the Code.

(11) Deemed Investment Elections: The investment elections described in Section 3.4.

(12) Deferral Account: A memorandum bookkeeping account established on the records of the Employer for a Participant that is credited with specified deferrals, and the Credited Investment Return determined in accordance with Section 3.4(e) of the Plan, made and

earned after December 31, 2004. A Participant shall have a 100% nonforfeitable interest in his or her Deferral Account at all times.

(13) Deferral and Investment Election Form: The form or procedure prescribed by the Committee pursuant to which a Participant elects for a particular Plan Year (a) the deferral of a portion of his or her Base Salary, Bonus Compensation and/or Long-Term Incentive Compensation, and (b) one or more Deemed Investment Options into which amounts to be allocated to his or her Deferral Account in respect of such deferrals for such Plan Year will be deemed invested.

(14) Determination Date: The date on which the amount of a Participant's Deferral Account or Grandfathered Plan Account is determined as provided in Section 3.4, as applicable. The last day of each month shall be a Determination Date. As of any Determination Date, a Participant's aggregate benefit under the Plan shall be equal to the amount credited to his or her Deferral Account and Grandfathered Plan Account, if applicable, as of such date.

(15) Directors: The Board of Directors of the Company.

(16) Effective Date: The effective date of this restatement is September 1, 2019. The original effective date of the Plan is the Deconsolidation Date.

(17) Eligible Employee: Any Employee who is (a) a regular Full-Time Active Employee, (b) paid in United States dollars and subject to the income tax laws of the United States, (c) an officer or member of a select group of highly compensated employees of the Employer, and (d) employed on or after the Effective Date.

(18) Employee: Any person employed by the Employer.

(19) Employer: The Company, each of the entities identified on Schedule A and each eligible organization designated as an Employer in accordance with the provisions of Article IX of the Plan.

(20) Full-Time Active Employee: An Employee whose employment with the Employer requires, and who regularly and actively performs, 30 or more hours of service for the Employer each week at a usual place of business of the Employer or at a location to which such Employee is required or permitted to travel on behalf of the Employer for which such Employee is paid regular compensation.

(21) Grandfathered Plan: The Halliburton Elective Deferral Plan as in effect on December 31, 2004, the material terms of which have not been materially modified (within the meaning of Section 409A) after October 3, 2004, and are preserved and continued in the Plan as reflected in Appendix A.

(22) Grandfathered Plan Account: A memorandum bookkeeping account established on the records of the Employer for a Participant that is credited with specified deferrals of amounts earned and vested prior to January 1, 2005, and the Credited Investment Return on such amounts determined in accordance with Section 3.4(e) of the Grandfathered Plan.

A Participant has a 100% non-forfeitable interest in his or her Grandfathered Plan Account at all times.

(23) HAL Plan: The Halliburton Elective Deferral Plan, as amended and restated effective May 1, 2002 and as subsequently amended with respect to any period up to the Deconsolidation Date.

(24) Investment Election Change Form: The form or procedure prescribed by the Committee pursuant to which a Participant may make changes to his or her Deemed Investment Elections applicable to future allocations to his or her Deferral Account or Grandfathered Plan Account and/or to his or her current Deferral Account balance or Grandfathered Plan Account balance.

(25) Investment Options: One or more alternatives designated from time to time by the Committee for purposes of crediting earnings or losses to Deferral Accounts and Grandfathered Plan Accounts.

(26) Long-Term Incentive Compensation: Awards, other than Bonus Compensation and Base Salary, earned under such plans or programs as the Compensation Committee may, from time to time, designate that are payable in cash.

(27) Participant: Each individual who has been selected for participation in the Plan and who has become a Participant pursuant to Article II.

(28) Plan: The KBR Elective Deferral Plan, as amended from time to time, constituting a continuation of the HAL Plan.

(29) Plan Year: The twelve consecutive month period commencing January 1 of each year.

(30) Retirement: The date the Participant separates from service within the meaning of Section 409A after attaining age 55 or after the sum of the Participant's age and years of service is 70 or greater.

(31) Section 409A: Section 409A of the Code and applicable Treasury authorities.

(32) Trust: The trust, if any, established under the Trust Agreement.

(33) Trust Agreement: The agreement, if any, entered into between the Employer and the Trustee pursuant to Article VIII.

(34) Trust Fund: The funds and properties, if any, held pursuant to the provisions of the Trust Agreement, together with all income, profits and increments thereto.

(35) Trustee: The trustee or trustees appointed by the Committee who are qualified and acting under the Trust Agreement at any time.

(36) Unforeseeable Emergency: A severe financial hardship to the Participant or beneficiary resulting from an illness or accident of the Participant or beneficiary, the Participant's or

beneficiary's spouse or of a dependent (as defined in Section 152 of the Code, without regard to Section 152(b)(1), (b)(2) and (d)(1)(B) of the Code) of the Participant; loss of the Participant's or beneficiary's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or beneficiary; provided, however, that such circumstances meet the definition of "unforeseeable emergency" under Section 409A, related Treasury pronouncements and any successor thereto.

1.2 Number and Gender. 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. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender.

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

II.

Participation

2.1 Participation. Each individual who was a Participant in the Plan immediately prior to the Effective Date shall continue as a Participant in the Plan as of the Effective Date. From and after the Effective Date, Participants shall also include those Eligible Employees who are selected by the Committee, in its sole discretion, as Participants. The Committee shall notify each Participant of his or her selection as a Participant. Subject to the provisions of Section 2.2, a Participant shall remain eligible to defer Base Salary, Bonus Compensation and/or Long-Term Incentive Compensation hereunder for each Plan Year following his or her initial year of participation in the Plan.

2.2 Cessation of Active Participation. Notwithstanding any provision herein to the contrary, an individual who has become a Participant in the Plan shall cease to be entitled to defer Base Salary, Bonus Compensation and/or Long-Term Incentive Compensation hereunder effective as of the date he or she ceases to be an Eligible Employee; provided, however, that any irrevocable deferral election made prior to the time that the Participant ceased to be an Eligible Employee shall remain in effect to the extent required by Section 409A. Any such cessation of the right to defer pursuant to the preceding sentence that is not in connection with a separation from service within the meaning of Section 409A shall be communicated to the affected individual as soon as administratively feasible.

III.

Deferral Account Credits; Investment Elections

3.1 Base Salary Deferrals.

(a) Any Participant may elect to defer receipt of an integral percentage of from 5% to 75% of his or her Base Salary, in 5% increments, for any Plan Year. Notwithstanding the foregoing, however, in no event may the deferred amount under this Section 3.1(a) exceed the percentage of the Participant's Base Salary remaining as of the first pay period of the Plan Year after application of all other amounts withheld from the Participant's Base Salary for any reason, including amounts withheld due to tax withholding or pursuant to the Participant's elections, as in effect on January 1 of the Plan Year, under any other plans maintained by the Employer. A Participant's election to defer receipt of a percentage of his or her Base Salary for any Plan Year shall be made on or before the last day of the preceding Plan Year. Notwithstanding the foregoing, if an individual initially becomes eligible to participate in the Plan other than on the first day of a Plan Year, such Participant's election to defer receipt of a percentage of his or her Base Salary for such Plan Year may be made no later than 30 days after the date he or she becomes eligible to participate in the Plan, but such election shall be prospective only. The reduction in a Participant's Base Salary pursuant to his or her election shall be effected by Base Salary reductions as of each payroll period within the election period. Deferrals of Base Salary under the Plan shall be made before elective deferrals or contributions of Base Salary under any other plan maintained by the Employer. Base Salary deferrals made by a Participant shall be credited to such Participant's Deferral Account as of the date the Base Salary deferred would have been received by such Participant had no deferral been made pursuant to this Section. Except as provided in Paragraph (b) of this Section, deferral elections for a Plan Year pursuant to this Section shall be irrevocable.

(b) If a revocation would not result in taxation under Section 409A, a Participant shall be permitted to revoke his or her election to defer receipt of his or her Base Salary under Section 3.1(a) for any Plan Year in the event of an Unforeseeable Emergency, as determined by the Committee in its sole discretion. For purposes of the Plan, the decision of the Committee regarding the existence or nonexistence of an Unforeseeable Emergency of a Participant shall be final and binding. Further, the Committee shall have the authority to require a Participant to provide such proof as it deems necessary to establish the existence and significant nature of the Participant's Unforeseeable Emergency. A Participant who is permitted to revoke his or her Base Salary deferral election during a Plan Year shall not be permitted to resume Base Salary deferrals under the Plan until the next following Plan Year.

3.2 Bonus Compensation Deferrals. Any Participant may elect to defer receipt of an integral percentage of from 5% to 75% of his or her Bonus Compensation, in 5% increments, for any Plan Year. A Participant's election to defer receipt of a percentage of his or her Bonus Compensation attributable to services performed in any Plan Year shall be made on or before the last day of the preceding Plan Year; provided, however, that to the extent Bonus Compensation satisfies the requirements for performance-based compensation under Section 409A, the Committee may allow a Participant to make a deferral election no later than the date that is six months before the end of the performance period for which the Bonus Compensation is paid (provided that such compensation has not become readily ascertainable as of the date of such

election). Notwithstanding the foregoing, if any individual initially becomes eligible to participate in the Plan other than on the first day of a Plan Year, such Participant's election to defer receipt of a percentage of his or her Bonus Compensation for such Plan Year may be made no later than 30 days after the date he or she becomes eligible to participate in the Plan, with the Bonus Compensation prorated as provided under Section 409A. Deferrals of Bonus Compensation under the Plan shall be made before elective deferrals or contributions of Bonus Compensation under any other plan maintained by the Employer. Bonus Compensation deferrals made by a Participant shall be credited to such Participant's Deferral Account as of the date the Bonus Compensation deferred would have been received by such Participant had no deferral been made pursuant to this Section 3.2. Deferral elections for a Plan Year pursuant to this Section shall be irrevocable.

3.3 Long-Term Incentive Compensation Deferrals. Any Participant may elect to defer receipt of an integral percentage of from 5% to 75% of his or her Long-Term Incentive Compensation, in 5% increments, payable in any Plan Year. A Participant's election to defer receipt of a percentage of his or her Long-Term Incentive Compensation payable with respect to any performance cycle shall be made on or before the last day of the Plan Year preceding the first Plan Year of the performance cycle; provided, however, that to the extent the Long-Term Incentive Compensation satisfies the requirements for performance-based compensation under Section 409A, the Committee may allow a Participant to make a deferral election no later than the date that is six months prior to the end of such performance cycle (provided that (a) the Participant performs services continuously from the later of the beginning of the performance cycle or the date the performance criteria are established through the date such election is made and (b) such compensation has not become readily ascertainable as of the date of such election). Long-Term Incentive Compensation deferrals made by a Participant shall be credited to such Participant's Deferral Account as of the date the Long-Term Incentive Compensation deferred would have been received by such Participant had no deferral been made pursuant to this Section 3.3. Deferral elections pursuant to this Section shall be irrevocable.

3.4 Investment of Deferral Accounts.

(a) As of any Determination Date, each Participant's Deferral Account shall consist of the balance of the Participant's Deferral Account as of the immediately preceding Determination Date adjusted for:

(1) additional deferrals pursuant to Sections 3.1, 3.2 and/or 3.3;

(2) distributions (if any); and

(3) the appropriate Credited Investment Return.

All adjustments will be recorded to the Participants' Deferral Accounts as of each Determination Date.

(b) The Committee shall designate from time to time one or more Investment Options in which the Deferral Accounts may be deemed invested. The Committee shall have the sole discretion to determine the number of Investment Options to be designated hereunder and the nature of the Investment Options and may change or eliminate any of the Investment Options from time to time. In the event of such change or elimination, the Committee shall give each Participant

timely notice and opportunity to make a new election. No such change or elimination of any Investment Options shall be considered to be an amendment to the Plan pursuant to Section 10.4. A Participant may request that his or her Deferral Account be allocated among the deemed Investment Options. If a Participant fails to make an election, his or her Deferral Account shall be deemed invested in a single fund selected by the Committee.

(c) A Participant shall, in connection with his or her election to defer Base Salary, Bonus Compensation and/or Long-Term Incentive Compensation for a particular Plan Year, elect one or more Investment Options into which amounts to be allocated to his or her Deferral Account in respect of deferrals for such Plan Year shall be deemed invested by submitting on or before the last day of the preceding Plan Year (or on or before the last day a Participant may make his election to defer an amount subject to the 30-day requirement for new Participants, or the six-month requirement for performance-based compensation) a Deferral and Investment Election Form in accordance with the procedures prescribed by the Committee.

(d) A Participant may request a change to his or her Deemed Investment Elections for future amounts allocated to his or her Deferral Account and amounts already allocated to his or her Deferral Account. Any such change shall be made by filing with the Committee an Investment Election Change Form. The Committee shall establish procedures relating to changes in Deemed Investment Elections, which may include limiting the percentage, amount and frequency of such changes and specifying the effective date for any such changes.

(e) Each Participant's Deferral Account shall be credited monthly with the Credited Investment Return attributable to his or her Deferral Account. The Credited Investment Return is the amount that the Participant's Deferral Account would have earned if the amounts credited to the Deferral Account had, in fact, been invested in accordance with the Participant's Deemed Investment Elections.

IV.

Emergency Withdrawals

Participants shall be permitted to make withdrawals from the Plan, without penalty, only in the event of an Unforeseeable Emergency, as determined by the Committee in its sole discretion. No withdrawal shall be allowed to the extent that such Unforeseeable Emergency is or may be relieved (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship or (c) by cessation of Base Salary deferrals under the Plan pursuant to Section 3.1(b). Further, the Committee shall permit a Participant to withdraw only the amount it determines, in its sole discretion, to be reasonably needed to satisfy the Unforeseeable Emergency.

V.

Payment of Benefits

5.1 Payment Election Generally. In conjunction with each deferral election made by a Participant pursuant to Article III for a Plan Year, such Participant shall elect, subject to

Sections 5.4, 5.5 and 5.7, the time and the form of payment with respect to such deferral and the Credited Investment Returns attributable thereto.

5.2 Time of Benefit Payment. With respect to each deferral election made by a Participant pursuant to Article III, such Participant shall elect to commence payment of such deferral, and the Credited Investment Returns attributable thereto, on one of the following dates:

(a) Retirement; or

(b) On a specific future month and year, but not earlier than five years from the date of the deferral if the Participant has not attained age fifty-five at the time of the deferral or one year from the date of the deferral if the Participant has attained age fifty-five at the time of the deferral, and not later than the first day of the year in which the Participant attains age seventy.

For purposes of the Plan, all Participants shall be "specified employees" within the meaning of Section 409A(a)(2)(B)(i) of the Code. Accordingly, any payments payable as a result of the Employee's termination of employment (other than death or disability (as defined under Section 409A)) shall not be payable before the earlier of (i) the date that is six months after the Employee's termination of employment, (ii) the date of the Employee's death, or (iii) the date that otherwise complies with the requirements of Section 409A.

5.3 Form of Benefit Payment. With respect to each deferral election made by a Participant pursuant to Article III, such Participant shall elect the form of payment with respect to such deferral and the Credited Investment Returns attributable thereto from one of the following forms:

(a) A lump sum; or

(b) Annual installment payments for a period not to exceed ten years.

Annual installment payments shall be paid on or before the last business day of January of each Plan Year. Each installment payment shall be determined by multiplying the deferral and the Credited Investment Returns attributable thereto at the time of the payment by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments to be made to the Participant.

Notwithstanding any provision of the Plan to the contrary, in the event the amount credited to a Participant's Deferral Account does not exceed the limit under Section 402(g)(1)(B) of the Code, the Deferral Account shall be paid only in the form of a lump sum. The provisions of this paragraph shall only apply if and to the extent permitted under Section 409A.

5.4 Total and Permanent Disability. If a Participant becomes totally and permanently disabled while employed by the Employer, payment of the amounts credited to such Participant's Deferral Account shall commence on the first business day of the second calendar quarter following the date the Committee makes a determination that the Participant is totally and permanently disabled, in the form of payment determined in accordance with Section 5.3. The above notwithstanding, if such Participant is already receiving payments pursuant to Section 5.2(b) and Section 5.3(b), such payments shall continue. For purposes of the Plan, a Participant shall be

considered totally and permanently disabled if the Committee determines, based on a written medical opinion (unless waived by the Committee as unnecessary), that such Participant is disabled within the meaning of Section 409A(a)(2)(C) of the Code.

5.5 Death. In the event of a Participant's death at a time when amounts are credited to such Participant's Deferral Account, such amounts shall be paid to such Participant's designated beneficiary or beneficiaries in a lump sum within 74 days after the Participant's death.

5.6 Designation of Beneficiaries.

(a) Each Participant shall have the right to designate the beneficiary or beneficiaries to receive payment of his or her benefit in the event of his or her death. Each such designation shall be made by executing and submitting the beneficiary designation form prescribed by the Committee. Any such designation may be changed at any time by execution of a new designation in accordance with this Section.

(b) If no such designation is on file with the Committee at the time of the death of the Participant or such designation is not effective for any reason as determined by the Committee, then the designated beneficiary or beneficiaries to receive such benefit shall be as follows:

(1) If a Participant leaves a surviving spouse, his or her benefit shall be paid to such surviving spouse.

(2) If a Participant leaves no surviving spouse, his or her benefit shall be paid to such Participant's executor or administrator, or to his or her heirs at law if there is no administration of such Participant's estate.

5.7 Other Separation from Service. Subject to the provisions of Section 5.2, if a Participant has a separation from service within the meaning of Section 409A(a)(2)(A)(i) of the Code before Retirement for a reason other than total and permanent disability or death, the amounts credited to such Participant's Deferral Account shall be paid to the Participant in a lump sum sixty days after the Participant's date of separation from service. For purposes of this Section, transfers of employment between and among the Company and any of its Affiliates shall not be considered a separation from service.

5.8 Payment of Benefits. To the extent the Trust Fund, if any, has sufficient assets, the Trustee shall pay benefits to Participants or their beneficiaries, except to the extent the Employer pays the benefits directly and provides adequate evidence of such payment to the Trustee. To the extent the Trustee does not or cannot pay benefits out of the Trust Fund, the benefits shall be paid by the Employer. Any benefit payments made to a Participant or for his or her benefit pursuant to any provision of the Plan shall be debited to such Participant's Deferral Account or Grandfathered Plan Account, as applicable. All benefit payments shall be made in cash to the fullest extent practicable.

5.9 Unclaimed Benefits. In the case of a benefit payable on behalf of a Participant, if the Committee is unable to locate the Participant or beneficiary to whom such benefit is payable,

upon the Committee's determination thereof, such benefit shall be forfeited to the Employer. Notwithstanding the foregoing, if subsequent to any such forfeiture the Participant or beneficiary to whom such benefit is payable makes a valid claim for such benefit, such forfeited benefit shall be paid by the Employer or restored to the Plan by the Employer.

5.10 No Acceleration of Bonus or Long-Term Incentive Compensation. The time of payment of any Bonus Compensation or Long-Term Incentive Compensation that the Participant has elected to defer but that has not yet been credited to the Participant's Deferral Account because it is not yet payable without regard to the deferral shall not be accelerated as a result of the provisions of this Article. If, pursuant to the provisions of this Article, payment of such Bonus Compensation or Long-Term Incentive Compensation would no longer be deferred at the time it becomes payable, such Bonus Compensation or Long-Term Incentive Compensation shall be paid to the Participant as soon as practicable following the date it would have been payable had the Participant not made a deferral election.

VI.

Administration of the Plan

6.1 Committee Powers and Duties. The general administration of the Plan shall be vested in the Committee. The Committee shall supervise the administration and enforcement of the Plan according to the terms and provisions hereof and shall have all powers necessary to accomplish these purposes, including, but not by way of limitation, the right, power, authority, and duty:

(a) To make rules, regulations, procedures and bylaws for the administration of the Plan that are not inconsistent with the terms and provisions hereof, and to enforce the terms of the Plan and the rules and regulations promulgated thereunder by the Committee;

(b) To designate, change and eliminate Investment Options in which Deferral Accounts and Grandfathered Plan Accounts may be deemed invested and to establish procedures relating to elections of Investment Options by Participants;

(c) To construe in its discretion all terms, provisions, conditions, and limitations of the Plan, including any associated documents;

(d) To correct any defect or to supply any omission or to reconcile any inconsistency that may appear in the Plan in such manner and to such extent as it shall deem in its discretion expedient to effectuate the purposes of the Plan;

(e) To employ and compensate such accountants, attorneys, investment advisors, and other agents, employees, and independent contractors as the Committee may deem necessary or advisable for the proper and efficient administration of the Plan;

(f) To determine in its discretion all questions relating to eligibility;

(g) To determine whether and when a Participant has incurred a separation from service with the Employer, and the reason for such separation;

(h) To make a determination in its discretion as to the right of any person to a benefit under the Plan and the amount and to prescribe procedures to be followed by distributees in obtaining benefits hereunder; and

(i) To receive and review reports from the Trustee as to the financial condition of the Trust Fund, if any, including its receipts and disbursements.

6.2 Self-Interest of Participants. No member of the Committee shall have any right to vote or decide upon any matter relating solely to himself under the Plan (including, without limitation, Committee decisions under Article II) or to vote in any case in which his or her individual right to claim any benefit under the Plan is particularly involved. In any case in which a Committee member is so disqualified to act and the remaining members cannot agree, the Compensation Committee shall appoint a temporary substitute member to exercise all the powers of the disqualified member concerning the matter in which he or she is disqualified.

6.3 Claims Review. In any case in which a claim for Plan benefits of a Participant or beneficiary is denied or modified, the Committee shall furnish written notice to the claimant within ninety days (or within 180 days if additional information requested by the Committee necessitates an extension of the ninety-day period), which notice shall:

(a) State the specific reason or reasons for the denial or modification;

(b) Provide specific reference to pertinent Plan provisions on which the denial or modification is based;

(c) Provide a description of any additional material or information necessary for the Participant, his or her beneficiary, or representative to perfect the claim and an explanation of why such material or information is necessary; and

(d) Explain the Plan's claim review procedure as contained herein.

In the event a claim for Plan benefits is denied or modified, if the Participant, his or her beneficiary, or a representative of such Participant or beneficiary desires to have such denial or modification reviewed, he or she must, within sixty days following receipt of the notice of such denial or modification, submit a written request for review by the Committee of its initial decision. In connection with such request, the Participant, his or her beneficiary, or the representative of such Participant or beneficiary may review any pertinent documents upon which such denial or modification was based and may submit issues and comments in writing. Within sixty days following such request for review the Committee shall, after providing a full and fair review, render its final decision in writing to the Participant, his or her beneficiary or the representative of such Participant or beneficiary stating specific reasons for such decision and making specific references to pertinent Plan provisions upon which the decision is based. If special circumstances require an extension of such sixty-day period, the Committee's decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. If an extension of time for review is required, written notice of the extension shall be furnished to the Participant, beneficiary, or the representative of such Participant or beneficiary prior to the commencement of the extension period.

6.4 Employer to Supply Information. The Employer shall supply full and timely information to the Committee, including, but not limited to, information relating to each Participant's compensation, age, retirement, death, or other cause of separation from service to the Employer and such other pertinent facts as the Committee may require. The Employer shall advise the Trustee, if any, of such of the foregoing facts as are deemed necessary for the Trustee to carry out the Trustee's duties under the Plan and the Trust Agreement. When making a determination in connection with the Plan, the Committee shall be entitled to rely upon the aforesaid information furnished by the Employer.

6.5 Indemnity. The Company shall indemnify and hold harmless each member of the Committee against any and all expenses and liabilities arising out of his or her administrative functions or fiduciary responsibilities, including any expenses and liabilities that are caused by or result from an act or omission constituting the negligence of such member in the performance of such functions or responsibilities, but excluding expenses and liabilities that are caused by or result from such member's own gross negligence or willful misconduct. Expenses against which such member shall be indemnified hereunder shall include, without limitation, the amounts of any settlement or judgment, costs, counsel fees, and related charges reasonably incurred in connection with a claim asserted or a proceeding brought or settlement thereof.

VII.

Administration of Funds

7.1 Payment of Expenses. All expenses incident to the administration of the Plan and Trust, including but not limited to, legal, accounting, Trustee fees, and expenses of the Committee, may be paid by the Employer and, if not paid by the Employer, shall be paid by the Trustee from the Trust Fund, if any.

7.2 Trust Fund Property. All income, profits, recoveries, contributions, forfeitures and any and all moneys, securities and properties of any kind at any time received or held by the Trustee, if any, shall be held for investment purposes as a commingled Trust Fund pursuant to the terms of the Trust Agreement. The Committee shall maintain one or more Deferral Accounts and/or Grandfathered Plan Accounts, as necessary, in the name of each Participant, but the maintenance of any such account designated as the account of a Participant shall not mean that such Participant shall have a greater or lesser interest than that due him or her by operation of the Plan and shall not be considered as segregating any funds or property from any other funds or property contained in the commingled fund. No Participant shall have any title to any specific asset in the Trust Fund, if any.

VIII.

Nature of the Plan

The Employer intends and desires by the adoption of the Plan to recognize the value to the Employer of the past and present services of employees covered by the Plan and to encourage and assure their continued service with the Employer by making more adequate provision for their future retirement security. The Plan is intended to constitute an unfunded, unsecured plan of

deferred compensation for a select group of management or highly compensated employees of the Employer. Plan benefits herein provided are to be paid out of the Employer's general assets. The Plan constitutes a mere promise by the Employers to make benefit payments in the future and Participants have the status of general unsecured creditors of the Employers. Nevertheless, subject to the terms hereof and of the Trust Agreement, if any, the Employers, or the Company on behalf of the Employers, may transfer money or other property to the Trustee and the Trustee shall pay Plan benefits to Participants and their beneficiaries out of the Trust Fund.

The Committee, in its sole discretion, may establish the Trust and direct the Employers to enter into the Trust Agreement and adopt the Trust for purposes of the Plan. In such event, the Employers shall remain the owner of all assets in the Trust Fund and the assets shall be subject to the claims of each Employer's creditors if such Employer ever becomes insolvent. For purposes hereof, an Employer shall be considered "insolvent" if (a) the Employer is unable to pay its debts as they become due, or (b) the Employer is subject to a pending proceeding as a debtor under the United States Bankruptcy Code (or any successor federal statute). The chief executive officer of the Employer and its board of directors shall have the duty to inform the Trustee in writing if the Employer becomes insolvent. Such notice given under the preceding sentence by any party shall satisfy all of the parties' duty to give notice. When so informed, the Trustee shall suspend payments to the Participants and hold the assets for the benefit of the Employer's general creditors. If the Trustee receives a written allegation that the Employer is insolvent, the Trustee shall suspend payments to the Participants and hold the Trust Fund for the benefit of the Employer's general creditors, and shall determine within the period specified in the Trust Agreement whether the Employer is insolvent. If the Trustee determines that the Employer is not insolvent, the Trustee shall resume payments to the Participants. No Participant or beneficiary shall have any preferred claim to, or any beneficial ownership interest in, any assets of the Trust Fund.

IX.

Participating Employers

The Committee may designate any entity or organization eligible by law to participate in the Plan as an Employer by written instrument delivered to the Secretary of the Company and the designated Employer. Such written instrument shall specify the effective date of such designated participation, may incorporate specific provisions relating to the operation of the Plan which apply to the designated Employer only and shall become, as to such designated Employer and its employees, a part of the Plan. Each designated Employer shall be conclusively presumed to have consented to its designation and to have agreed to be bound by the terms of the Plan and any and all amendments thereto upon its submission of information to the Committee required by the terms of or with respect to the Plan; provided, however, that the terms of the Plan may be modified so as to materially increase the obligations of an Employer only with the consent of such Employer, which consent shall be conclusively presumed to have been given by such Employer upon its submission of any information to the Committee required by the terms of or with respect to the Plan. Except as modified by the Committee in its written instrument, the provisions of the Plan shall be applicable with respect to each Employer separately, and amounts payable hereunder shall be paid by the Employer which employs the particular Participant, if not paid from the Trust Fund.

X.

Miscellaneous

10.1 Not Contract of Employment. The adoption and maintenance of the Plan shall not be deemed to be a contract between the Employer and any person or to be consideration for the employment of any person. Nothing herein contained shall be deemed to give any person the right to be retained in the employ of the Employer or to restrict the right of the Employer to discharge any person at any time nor shall the Plan be deemed to give the Employer the right to require any person to remain in the employ of the Employer or to restrict any person's right to terminate his or her employment at any time.

10.2 Alienation of Interest Forbidden. Except as hereinafter provided, the interest of a Participant or his or her beneficiary or beneficiaries hereunder may not be sold, transferred, assigned, or encumbered in any manner, either voluntarily or involuntarily, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be null and void; neither shall the benefits hereunder be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person to whom such benefits or funds are payable, nor shall they be an asset in bankruptcy or subject to garnishment, attachment or other legal or equitable proceedings. Plan provisions to the contrary notwithstanding, the Committee shall comply with the terms and provisions of an order that satisfies the requirements for a "qualified domestic relations order" as such term is defined in Section 206(d)(3)(B) of the Act, 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 the Act.

10.3 Withholding. All deferrals and payments provided for hereunder shall be subject to applicable withholding and other deductions as shall be required of the Employer under any applicable local, state or federal law.

10.4 Amendment and Termination. The Compensation Committee may from time to time, in its discretion, amend, in whole or in part, any or all of the provisions of the Plan; provided, however, that amendments to the Plan (a) that are required to comply with applicable law or (b) that facilitate Plan administration without increasing benefits under the Plan to any Participants, may be made by the Chief Executive Officer of the Company (the "CEO"), or his designee. Notwithstanding the preceding sentence, no amendment may be made that would impair the rights of a Participant with respect to amounts already allocated to his or her Deferral Account and Grandfathered Plan Account, as applicable. The Compensation Committee may terminate the Plan at any time. In the event that the Plan is terminated, the balance in a Participant's Deferral Account and Grandfathered Plan Account shall be paid to such Participant or his or her designated beneficiary in a single lump sum payment of cash in full satisfaction of all of such Participant's or beneficiary's benefits hereunder if such distribution is permitted under Section 409A. Any such amendment to or termination of the Plan shall be in writing and signed by a member of the Compensation Committee or its designee (or the CEO, or his designee, as applicable). Notwithstanding the above, any action taken under this Section is subject to the limitations provided in Appendix A.

10.5 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.

10.6 Governing Laws. All provisions of the Plan shall be construed in accordance with the laws of Texas except to the extent preempted by federal law.

10.7 Section 409A Compliance. It is intended that the provisions of the Plan satisfy the requirements of Section 409A and that the Plan be operated in a manner consistent with such requirements to the extent applicable. Therefore, the Committee may make adjustments to the Plan and may construe the provisions of the Plan in accordance with the requirements of Section 409A.

This restatement of the Plan shall be effective from the Effective Date and the Plan shall continue in force during subsequent years unless amended or revoked by action of the Compensation Committee.

KBR, INC.

By ______________________

Date August 21, 2019

REVIEWED
LEGAL

SCHEDULE A

BE&K, Inc. and its subsidiaries

KBR Technical Services, Inc.

KBR, Inc.

KBRwyle Technology Solutions, LLC

Kellogg Brown & Root LLC

Overseas Administration Services, Ltd.

APPENDIX A

The Grandfathered Plan contains the provisions governing the deferrals of accounts earned and vested by Participants on or before December 31, 2004. This Appendix A preserves the material terms of the Grandfathered Plan as in effect on December 31, 2004, and is intended to satisfy the requirements of Section 409A as to grandfathered amounts. The provisions of this Appendix A shall apply to, and be effective only with respect to, the deferral of earned and vested amounts under the Grandfathered Plan before January 1, 2005, and the Credited Investment Return on such deferrals credited at any time. The Plan provides for separate accounting of such amounts deferred, earned, and vested before January 1, 2005, and the Credited Investment Return thereon.

No amendment to the Plan shall be deemed to amend this Appendix A and the relevant provisions of the Plan in effect prior to such amendment unless otherwise specifically set forth therein. Pursuant to Section 1.409A-6(a)(4) of the Treasury Regulations, a modification is material "if a benefit or right existing as of October 3, 2004 is materially enhanced or a new material benefit or right is added...." Section 5.8 of the Grandfathered Plan was removed because that section does not relate to the Company or to the rights of Participants under the Plan. The removal of Section 5.8, below, is hereunder intended to be in good faith compliance with Section 409A, and is not intended to materially modify the benefits existing as of October 3, 2004 under the Grandfathered Plan.

The provisions of the Plan applicable to the Grandfathered Plan Accounts shall be administered in a manner consistent with the Grandfathered Plan and Appendix A. Wherever the Plan has added, changed, or otherwise altered any terms of the Grandfathered Plan that were in effect on December 31, 2004, in a manner that would constitute a material modification, as described above, such changes will be disregarded in the administration of the Grandfathered Plan Accounts herein.

APPLICABLE GRANDFATHERED PLAN TERMS

With respect to the deferral of amounts earned and vested prior to January 1, 2005, and the Credited Investment Return on such deferrals credited at any time, the following definitions and Articles in this Appendix A shall be substituted for the corresponding definitions and Articles of the Plan:

Retirement: The date the Participant retires in accordance with the terms of his or her Employer's retirement policy as in effect at that time.

Unforeseeable Emergency: A severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For purposes of the Grandfathered Plan, the decision of the Committee regarding the existence or nonexistence of an Unforeseeable Emergency of a Participant shall be final and binding. Further, the Committee shall have the authority to require a Participant to provide such proof as it deems necessary to establish the existence and significant nature of the Participant's Unforeseeable Emergency.

III.

Grandfathered Plan Account Credits; Investment Elections

3.1 Base Salary Deferrals. Effective from and after January 1, 2005, no deferrals of Base Salary shall be credited to a Participant's Grandfathered Plan Account.

3.2 Bonus Compensation Deferrals. Effective from and after January 1, 2005, no deferrals of Bonus Compensation shall be credited to a Participant's Grandfathered Plan Account.

3.3 Long-Term Incentive Compensation Deferrals. Effective from and after January 1, 2005, no deferrals of Long-Term Incentive Compensation shall be credited to a Participant's Grandfathered Plan Account.

3.4 Investment of Grandfathered Plan Accounts.

(a) As of any Determination Date, each Participant's Grandfathered Plan Account shall consist of the balance of the Participant's Grandfathered Plan Account as of the immediately preceding Determination Date adjusted for:

(1) distributions (if any); and

(2) the appropriate Credited Investment Return.

All adjustments will be recorded to the Participants' Grandfathered Plan Accounts as of each Determination Date.

(b) The Committee shall designate from time to time one or more Investment Options in which the Grandfathered Plan Accounts may be deemed invested. The Committee shall have the sole discretion to determine the number of Investment Options to be designated hereunder and the nature of the Investment Options and may change or eliminate any of the Investment Options from time to time. In the event of such change or elimination, the Committee shall give each Participant timely notice and opportunity to make a new election. No such change or elimination of any Investment Options shall be considered to be an amendment to the Plan pursuant to Section 10.4. A Participant may request that his or her Grandfathered Plan Account be allocated among the deemed Investment Options. If a Participant fails to make an election, his or her Grandfathered Plan Account shall be deemed invested in a single fund selected by the Committee.

(c) Except as changed under Section 3.4(d), the Participant's Deemed Investment Elections designated in the Participant's initial deferral election shall remain in effect with respect to his or her Grandfathered Plan Account and any additional amounts credited thereto.

(d) A Participant may request a change to his or her Deemed Investment Elections for future amounts allocated to his or her Grandfathered Plan Account and amounts already allocated to his or her Grandfathered Plan Account. Any such change shall be made by filing with the Committee an Investment Election Change Form. The Committee shall establish procedures relating to changes in Deemed Investment Elections, which may include limiting the

percentage, amount and frequency of such changes and specifying the effective date for any such changes.

(e) Each Participant's Grandfathered Plan Account shall be credited monthly with the Credited Investment Return attributable to his or her Grandfathered Plan Account. The Credited Investment Return is the amount that the Participant's Grandfathered Plan Account would have earned if the amounts credited to the Grandfathered Plan Account had, in fact, been invested in accordance with the Participant's Deemed Investment Elections.

IV.

Withdrawals

4.1 Emergency Withdrawals. Participants shall be permitted to make withdrawals from the Grandfathered Plan Account, without penalty, only in the event of an Unforeseeable Emergency, as determined by the Committee in its sole discretion. No withdrawal shall be allowed to the extent that such Unforeseeable Emergency is or may be relieved (a) through reimbursement or compensation by insurance or otherwise or (b) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship. Further, the Committee shall permit a Participant to withdraw only the amount it determines, in its sole discretion, to be reasonably needed to satisfy the Unforeseeable Emergency.

4.2 Non-Emergency Withdrawals. A Participant may make withdrawals from his or her Grandfathered Plan Accounts at any time for reasons other than an Unforeseeable Emergency, subject to the following:

(a) the minimum amount that may be withdrawn is $5,000;

(b) only one such withdrawal may be made during any Plan Year;

(c) the withdrawal shall be in cash in a lump sum and taken from the Grandfathered Plan Accounts and Investment Options designated by the Participant;

(d) the withdrawal must be designated in a whole percentage or a whole dollar amount; and

(e) upon such withdrawal, a portion of the Participant's Grandfathered Plan Account balance shall be forfeited based on the amount withdrawn from the Grandfathered Plan, determined as follows:

With Respect to the Amount Withdrawn from the Following Percentiles of the Grandfathered Plan	Percentage of Amount Withdrawn from the Percentile to be Forfeited from the Grandfathered Plan
First 50%	10%
Second 50%	25%

The withdrawal amount shall be reduced to the extent necessary for the sum of the amount of the withdrawal and the forfeiture not to exceed 100% of the Participant's Grandfathered Plan Account balance.

Notwithstanding the foregoing, if such a withdrawal is made on or within one year following a Corporate Change (as defined below), the amount of the Participant's Grandfathered Plan Accounts forfeited upon such withdrawal shall be equal to 10% of the amount of such withdrawal. A Corporate Change means one of the following events occurs: (i) the merger, consolidation or other reorganization of the Company in which the outstanding common stock of the Company 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 of the Company), cash or other property; (ii) the sale, lease or exchange of all or substantially all of the assets of the Company to any other corporation or entity (except a direct or indirect wholly owned subsidiary of the Company); (iii) the adoption of 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, of beneficial ownership, as contemplated by such Section, 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 members of the board of directors of the Company, the persons who were directors before such election shall cease to constitute a majority of the directors of the Company.

Withdrawals shall be paid as soon as reasonably practicable following the Participant's request, which must be in such form or manner as the Company may prescribe from time to time.

V.

Payment of Benefits

5.1 Payment Election Generally. Pursuant to Article III hereof, no additional deferrals are allowed under the Grandfathered Plan.

5.2 Time of Benefit Payment. With respect to each deferral election made by a Participant pursuant to Article III, such Participant shall elect to commence payment of such deferral and the Credited Investment Returns attributable thereto on one of the following dates:

(a) Retirement; or

(b) A specific future month and year, but not earlier than five years from the date of the deferral if the Participant has not attained age fifty-five at the time of the deferral or one year from the date of the deferral if the Participant has attained age fifty-five at the time of the deferral, and not later than the first day of the year in which the Participant attains age seventy.

5.3 Form of Benefit Payment. With respect to each deferral election made by a Participant pursuant to Article III, such Participant shall elect the form of payment with respect to such deferral and the Credited Investment Returns attributable thereto from one of the following forms:

(a) A lump sum; or

(b) Installment payments for a period not to exceed ten years.

Installment payments shall be paid annually on or before the last business day of January of each Plan Year; provided however, that not later than sixty days prior to the date payment is to commence, a Participant may elect to have his or her installment payments paid quarterly on the first business day of each calendar quarter. Each installment payment shall be determined by multiplying the deferral and the Credited Investment Returns attributable thereto at the time of the payment by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments to be made to the Participant.

In the event the aggregate amount credited to a Participant's Deferral Account and Grandfathered Plan Account does not exceed $50,000, the Committee may, in its sole discretion, pay the Grandfathered Plan Account in the form of a lump sum.

5.4 Total and Permanent Disability. If a Participant becomes totally and permanently disabled while employed by the Employer, payment of the amounts credited to such Participant's Grandfathered Plan Account shall commence on the first business day of the second calendar quarter following the date the Committee makes a determination that the Participant is totally and permanently disabled, in the form of payment determined in accordance with Section 5.3. The above notwithstanding, if such Participant is already receiving payments pursuant to Section 5.2(b) and Section 5.3(b), such payments shall continue. For purposes of the Plan, a Participant shall be considered totally and permanently disabled if the Committee determines, based on a written medical opinion (unless waived by the Committee as unnecessary), that such Participant is permanently incapable of performing his or her job for physical or mental reasons.

5.5 Death. In the event of a Participant's death at a time when amounts are credited to such Participant's Grandfathered Plan Account, such amounts shall be paid to such Participant's designated beneficiary or beneficiaries in five annual installments commencing as soon as administratively feasible after such Participant's date of death. However, the Participant's designated beneficiary or beneficiaries may request a lump sum payment based upon hardship, and the Committee, in its sole discretion, may approve such request.

5.6 Other Termination of Employment. If a Participant terminates his or her employment with the Employer before Retirement for a reason other than total and permanent disability or death, the amounts credited to such Participant's Grandfathered Plan Account shall be paid to the Participant in a lump sum no less than sixty days and no more than one year after the Participant's date of termination of employment. For purposes of this Section, transfers of employment between and among the Company and any of its Affiliates shall not be considered a termination of employment.

5.7 Payment of Benefits. To the extent the Trust Fund, if any, has sufficient assets, the Trustee shall pay benefits to Participants or their beneficiaries, except to the extent the Employer pays the benefits directly and provides adequate evidence of such payment to the Trustee. To the extent the Trustee does not or cannot pay benefits out of the Trust Fund, the benefits shall be paid by the Employer. Any benefit payments made to a Participant or for his or her benefit pursuant to

any provision of the Grandfathered Plan shall be debited to such Participant's Grandfathered Plan Account. All benefit payments shall be made in cash to the fullest extent practicable.

5.8 No Acceleration of Bonus or Long-Term Incentive Compensation. The time of payment of any Bonus Compensation or Long-Term Incentive Compensation that the Participant has elected to defer but that has not yet been credited to the Participant's Grandfathered Plan Account because it is not yet payable without regard to the deferral shall not be accelerated as a result of the provisions of this Article. If, pursuant to the provisions of this Article, payment of such Bonus Compensation or Long-Term Incentive Compensation would no longer be deferred at the time it becomes payable, such Bonus Compensation or Long-Term Incentive Compensation shall be paid to the Participant within 90 days of the date it would have been payable had the Participant not made a deferral election.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Stuart Bradie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBR, Inc. (the "registrant");

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: October 31, 2019

/s/ Stuart Bradie

Stuart Bradie

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Mark Sopp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBR, Inc. (the “registrant”);

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: October 31, 2019

/s/ Mark Sopp

Mark Sopp
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C. §1350

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 period ended September 30, 2019, 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 as amended; 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/ Stuart Bradie

Stuart Bradie
Chief Executive Officer

Date: October 31, 2019

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C. §1350

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 period ended September 30, 2019, 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 as amended; 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/ Mark Sopp

Mark Sopp
Chief Financial Officer

Date: October 31, 2019