KBR, INC.
Form 10-Q
November 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015
OR
.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to
Commission File Number: 1-33146

KBR, Inc.
(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) 753-3011
(Registrant's telephone number including area code)

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 ý No ¨

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

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

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

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

As of October 14, 2015, there were 144,262,730 shares of KBR, Inc. Common Stock, par value $0.001 per share, outstanding.

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Forward-Looking and Cautionary Statements

This report contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Some of the statements contained in this quarterly report are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “plan,” “expect” and similar expressio 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 2014 Annual Report on Form 10-K contained in Part I under “Risk Factors.”

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$1,199	$1,657	$4,016	$4,949
Cost of revenues	(1,112)	(1,627)	(3,785)	(4,852)
Gross profit	87	30	231	97
Equity in earnings of unconsolidated affiliates	35	38	123	118
General and administrative expenses	(38)	(58)	(119)	(178)
Asset impairment and restructuring charges	(15)	—	(34)	—
Gain on disposition of assets	6	—	34	8
Operating income	75	10	235	45
Other non-operating income	3	34	4	18
Income before income taxes and noncontrolling interests	78	44	239	63
Benefit (provision) for income taxes	(19)	1	(61)	(30)
Net income	59	45	178	33
Net income attributable to noncontrolling interests	(4)	(15)	(17)	(54)
Net income (loss) attributable to KBR	$55	$30	$161	$(21)
Net income (loss) attributable to KBR per share:				
Basic	$0.38	$0.21	$1.11	$(0.14)
Diluted	$0.38	$0.21	$1.11	$(0.14)
Basic weighted average common shares outstanding	144	145	144	145
Diluted weighted average common shares outstanding	144	145	144	145
Cash dividends declared per share	$0.08	$0.08	$0.24	$0.24

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$59	$45	$178	$33
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Foreign currency translation adjustments, net of tax	(13)	(49)	(74)	(27)
Reclassification adjustment included in net income	—	—	—	1
Foreign currency translation adjustments, net of taxes of $6, $(6), $5 and $(1)	(13)	(49)	(74)	(26)
Pension and post-retirement benefits, net of tax:				
Actuarial losses, net of tax	—	—	—	—
Reclassification adjustment included in net income	10	8	32	25
Pension and post-retirement benefits, net of taxes of $2, $3, $5 and $7	10	8	32	25
Changes in fair value of derivatives:				
Changes in fair value of derivatives, net of tax	—	—	—	(1)
Reclassification adjustment included in net income	1	(1)	1	(1)
Changes in fair value of derivatives, net of taxes of $0, $0, $0 and $0	1	(1)	1	(2)
Other comprehensive income (loss), net of tax	(2)	(42)	(41)	(3)
Comprehensive income	57	3	137	30
Less: Comprehensive income attributable to noncontrolling interests	(6)	(16)	(20)	(55)
Comprehensive income (loss) attributable to KBR	$51	$(13)	$117	$(25)

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and equivalents	$768	$970
Accounts receivable, net of allowance for doubtful accounts of $20 and $19	699	847
Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE")	284	490
Deferred income taxes	68	90
Other current assets	143	147
Total current assets	1,962	2,544
Property, plant, and equipment, net of accumulated depreciation of $340 and $385 (including net PPE of $51 and $57 owned by a variable interest entity)	198	247
Goodwill	324	324
Intangible assets, net of accumulated amortization of $90 and $96	38	41
Equity in and advances to unconsolidated affiliates	261	151
Deferred income taxes	176	174
Claims and accounts receivable	549	570
Other assets	143	148
Total assets	$3,651	$4,199
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$485	$742
Payable to former parent	19	56
Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE")	500	531
Accrued salaries, wages and benefits	176	197
Nonrecourse project debt	10	10
Other current liabilities	326	488
Total current liabilities	1,516	2,024
Pension obligations	444	502
Employee compensation and benefits	110	112
Income tax payable	72	69
Deferred income taxes	175	170
Nonrecourse project debt	56	63
Deferred income from unconsolidated affiliates	103	95
Other liabilities	201	229
Total liabilities	2,677	3,264
KBR shareholders' equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, $0.001 par value, 300,000,000 shares authorized, 175,044,525 and 174,448,399 shares issued, and 144,260,718 and 144,837,281 shares outstanding	—	—
Paid-in capital in excess of par ("PIC")	2,066	2,091
Accumulated other comprehensive loss ("AOCL")	(920)	(876)
Retained earnings	565	439
Treasury stock, 30,783,807 shares and 29,611,118 shares, at cost	(729)	(712)

Total KBR shareholders’ equity	982	942
Noncontrolling interests ("NCI")	(8)	(7)
Total shareholders’ equity	974	935
Total liabilities and shareholders’ equity	$3,651	$4,199

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from (used in) operating activities:		
Net income	$178	$33
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	29	55
Equity in earnings of unconsolidated affiliates	(123)	(118)
Deferred income tax (benefit) expense	14	(2)
Gain on disposition of assets	(34)	(8)
Gain on negotiated settlement with former parent	—	(24)
Other	29	33
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(19)	66
Costs and estimated earnings in excess of billings on uncompleted contracts	168	(109)
Accounts payable	(239)	(43)
Billings in excess of costs and estimated earnings on uncompleted contracts	(10)	53
Accrued salaries, wages and benefits	(5)	(16)
Reserve for loss on uncompleted contracts	(100)	13
Receipts of advances from unconsolidated affiliates, net	10	14
Distributions of earnings from unconsolidated affiliates	84	212
Income taxes payable	(7)	22
Pension funding	(37)	(37)
Net settlement of derivative contracts	(40)	2
Other assets and liabilities	17	32
Total cash flows provided by (used in) operating activities	(85)	178
Cash flows from (used in) investing activities:		
Purchases of property, plant and equipment	(8)	(46)
Payment for investment in partnership	(15)	—
Proceeds from sale of assets or investments	71	9
Total cash flows provided by (used in) investing activities	$48	$(37)

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows used in financing activities:		
Payments to reacquire common stock	$(22)	$(102)
Acquisition of noncontrolling interest	(40)	—
Investments from noncontrolling interests	—	10
Distributions to noncontrolling interests	(21)	(49)
Payments of dividends to shareholders	(35)	(35)
Net proceeds from issuance of common stock	1	4
Payments on short-term and long-term borrowings	(7)	(7)
Other	(4)	1
Total cash flows used in financing activities	(128)	(178)
Effect of exchange rate changes on cash	(37)	(21)
Decrease in cash and equivalents	(202)	(58)
Cash and equivalents at beginning of period	970	1,106
Cash and equivalents at end of period	$768	$1,048
Supplemental disclosure of cash flows information:		
Cash paid for interest	$8	$9
Cash paid for income taxes (net of refunds)	$56	$13
Noncash financing activities		
Dividends declared	$12	$12

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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 an engineering, procurement, construction and services company supporting the global hydrocarbons and international government services market segments. Our capabilities include engineering, procurement, construction, construction management, technology licensing, operations, maintenance and other support services to a diverse customer base, including international and national oil and gas companies, independent refiners, petrochemical producers, fertilizer producers, manufacturers and domestic and foreign governments.

Principles of Consolidation

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of KBR and our wholly owned and majority-owned, controlled subsidiaries and variable interest entities ("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 7 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 balances and transactions are eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current year presentation on the condensed consolidated statements of operations, condensed consolidated balance sheets and the condensed consolidated statements of cash flows.

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.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas requiring significant estimates and assumptions by our management include the following:

- project revenues, costs and profits on engineering and construction contracts and government services contracts, including recognition of estimated losses on uncompleted contracts
- provisions for uncollectible receivables and client claims and recoveries of costs from subcontractors, vendors and others
- provisions for income taxes and related valuation allowances and tax uncertainties
- recoverability of goodwill
- recoverability of other intangibles and long-lived assets and related estimated lives
- recoverability of equity method and cost method investments
- valuation of pension obligations and pension assets
- accruals for estimated liabilities, including litigation accruals

- consolidation of VIEs
- valuation of share-based compensation

In accordance with normal practice in the construction industry, we include in current assets and current liabilities amounts related to construction contracts realizable and payable over a period in excess of one year. If the underlying estimates and assumptions upon which the financial statements are based change in the future, actual amounts may differ from those included in the accompanying condensed consolidated financial statements.

Deconsolidation of a Subsidiary

We account for a gain or loss on deconsolidation of a subsidiary or derecognition of a group of assets in accordance with the guidance in Accounting Standards Codification ("ASC") 810-10-40-5. We measure the gain or loss as the difference between (a) the aggregate of all the following: (1) the fair value of any consideration received (2) the fair value of any retained noncontrolling investment in the former subsidiary or group of assets at the date the subsidiary is deconsolidated or the group of assets is derecognized and (3) the carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated and (b) the carrying amount of the former subsidiary’s assets and liabilities or the carrying amount of the group of assets.

Service Concession Arrangements

On January 24, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-05, Service Concession Arrangements. A service concession arrangement is an arrangement between a public-sector entity and an operating entity under which the operating entity operates the grantor's infrastructure. This ASU specifies that an operating entity should not account for a service concession arrangement within the scope of this ASU as a lease in accordance with ASC 840 - Leases. An operating entity should refer to other ASUs as applicable to account for various aspects of a service concession arrangement. The amendments also specify that the infrastructure used in a service concession agreement should not be recognized as property, plant and equipment of the operating entity. The amendments in this ASU are effective using a modified retrospective approach for annual reporting periods beginning after December 15, 2014 and interim periods within those annual periods. The adoption of ASU 2014-05 on January 1, 2015 did not have a material impact on our financial statements.

Additional Balance Sheet Information

Other Current Liabilities

The components of “other current liabilities” on our condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 are presented below:

Dollars in millions	September 30, 2015	December 31, 2014
Reserve for estimated losses on uncompleted contracts (a)	$54	$159
Retainage payable	61	88
Income taxes payable	55	61
Deferred tax liabilities	50	46
Value-added tax payable	27	31
Insurance payable	15	19
Dividend payable	12	12
Other miscellaneous liabilities (b)	52	72
Total other current liabilities	$326	$488

(a) See Note 2 for further discussion on our reserve for estimated losses on uncompleted contracts.
(b) Included in other current miscellaneous liabilities is $7 million of deferred rent as of September 30, 2015 and December 31, 2014, respectively.

Other Liabilities

Included in the "other liabilities" balance on our condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 is noncurrent deferred rent of $118 million and $128 million, respectively.

Note 2. Business Segment Information

Following the completion of our strategic review, in December 2014, we reorganized our business into three segments in order to focus on core strengths in technology and consulting, engineering and construction, and government services. We also reorganized the businesses that we intend to exit into our Non-strategic Business segment because they no longer constitute a part of our future strategic focus. Each business segment reflects a reportable segment led by a separate business segment president who reports directly to our chief operating decision maker ("CODM"). Business segment performance is evaluated by our CODM using gross profit (loss), which is defined as business segment revenues less the cost of revenues, and includes overhead directly attributable to the business segment. We have revised our business segment reporting to reflect our current management approach and recast prior periods to conform to the current business segment presentation.

Our business segments are described below.

Technology & Consulting ("T&C"). Our T&C business segment combines proprietary KBR technologies, knowledge-based services and our three specialist consulting brands, Granherne, Energo and GVA, under a single customer-facing global business. This business segment provides licensed technologies and consulting services throughout the oil and gas value chain, from wellhead to crude refining and through to specialty chemicals production. In addition to sharing many of the same customers, these brands share the approach of early and continuous customer involvement to deliver an optimal solution to meet the customer's objectives through early planning and scope definition, advanced technologies, and project lifecycle support.
Engineering & Construction ("E&C"). Our E&C business segment leverages our operational and technical excellence as a global provider of engineering, procurement, construction ("EPC"), commissioning and maintenance services for oil and gas, refining, petrochemical and chemical customers. E&C is managed on a geographic basis in order to facilitate close proximity to our customers and our people, while utilizing a consistent global execution strategy.
Government Services ("GS"). Our GS business segment focuses on long-term service contracts with annuity streams, particularly for the United Kingdom ("U.K."), Australian and United States ("U.S.") governments.
Non-strategic Business. Our Non-strategic Business segment represents the operations or activities that we intend to either sell to third parties or exit upon completion of existing contracts.
Other. Our Other business segment includes our corporate expenses and general and administrative expenses not allocated to the business segments above and any future activities that do not individually meet the criteria for segment presentation.

The following table presents revenues, gross profit, equity in earnings of unconsolidated affiliates and operating income (loss) by reporting segment.

Operations by Reportable Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in millions	2015	2014	2015	2014
Revenues:				
Technology & Consulting	$79	$94	$231	$285
Engineering & Construction	828	1,196	2,758	3,546
Government Services	176	178	489	527
Other	—	—	—	—
Subtotal	1,083	1,468	3,478	4,358
Non-strategic Business	116	189	538	591
Total revenues	$1,199	$1,657	$4,016	$4,949
Gross profit (loss):				
Technology & Consulting	$17	$18	$57	$48
Engineering & Construction	48	46	155	108
Government Services	8	24	3	28
Other	—	—	—	—
Subtotal	73	88	215	184
Non-strategic Business	14	(58)	16	(87)
Total gross profit (loss)	$87	$30	$231	$97
Equity in earnings of unconsolidated affiliates:				
Technology & Consulting	$—	$—	$—	$—
Engineering & Construction	26	26	87	63
Government Services	9	12	36	55
Other	—	—	—	—
Subtotal	35	38	123	118
Non-strategic Business	—	—	—	—
Total equity in earnings of unconsolidated affiliates	$35	$38	$123	$118
Asset impairment and restructuring charges:				
Technology & Consulting	$—	$—	$(1)	$—
Engineering & Construction	(13)	—	(25)	—
Government Services	—	—	—	—
Other	(1)	—	(5)	—
Subtotal	(14)	—	(31)	—
Non-strategic Business	(1)	—	(3)	—
Total asset impairment and restructuring charges	$(15)	$—	$(34)	$—
Segment operating income (loss):				
Technology & Consulting	$16	$18	$53	$48
Engineering & Construction	61	58	201	129
Government Services	15	34	34	77
Other	(28)	(42)	(92)	(122)
Subtotal	64	68	196	132
Non-strategic Business	11	(58)	39	(87)
Total segment operating income (loss)	$75	$10	$235	$45

Prior Period Adjustment

During the second quarter of 2015, we corrected a cumulative error related to transactions between the unconsolidated affiliates associated with our Mexican offshore maintenance joint venture within our E&C business segment. The cumulative error occurred throughout the period beginning in 2007 and through the first quarter of 2015 and resulted in a $15 million favorable impact to "equity in earnings of unconsolidated affiliates" on our condensed consolidated statements of operations during the second quarter of 2015. We evaluated the cumulative error on both a quantitative and qualitative basis under the guidance of ASC 250 - Accounting Changes and Error Corrections. We determined that the cumulative impact of the error did not affect the trend of net income, cash flows or liquidity and therefore did not have a material impact to previously issued financial statements. Additionally, we do not expect our consolidated financial statements for the current annual period to be materially impacted by the error correction.

Changes in Estimates

There are many factors that can affect the accuracy of our cost estimates and ultimately our future profitability, including, but not limited to, the availability and costs of resources, including labor, materials and equipment, productivity and weather, and for unit rate and construction service contracts, the availability and detail of customer supplied engineering drawings. In the past, we have realized both lower and higher than expected margins and have incurred losses as a result of unforeseen changes in our project costs. 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. However, historically, our estimates have been reasonably dependable regarding the recognition of revenues and profit on percentage of completion contracts.

Significant changes in estimates periodically result in the recognition of losses on a particular contract. We generally believe that the recognition of a contract as a loss contract is a significant change in estimate. Activity in our reserve for estimated losses on uncompleted contracts, which is a component of "other current liabilities" on our condensed consolidated balance sheets, was as follows:

Dollars in millions	Reserve for Estimated Losses	
Balance at December 31, 2014	$159	
Changes in estimates on loss projects	(7	)
Change due to progress on loss projects	(98	)
Balance at September 30, 2015	$54	

Dollars in millions	Reserve for Estimated Losses	
Balance at December 31, 2013	$109	
Changes in estimates on loss projects	76	
Change due to progress on loss projects	(67	)
Balance at September 30, 2014	$118	

Included in the reserve for estimated losses on uncompleted contracts is $41 million as of September 30, 2015 and $80 million as of December 31, 2014 primarily related to two power project in our Non-strategic Business segment, which we recognized as loss contracts during the fourth quarter of 2014. During the three and nine months ended September 30, 2015, there were no significant changes in our estimates of losses on these projects. Our estimates of revenues and costs at completion for these power projects have been, and may continue to be, impacted by our performance, the performance of our subcontractors, and the U.S. labor market. Our estimated losses at completion as of September 30, 2015 on these power projects represent our best estimate based on current information. Actual results could differ from the estimates we have used to account for these power projects as of September 30, 2015.

Included in the reserve for estimated losses on uncompleted contracts is $2 million as of September 30, 2015 and $53 million as of December 31, 2014 related to our Canadian pipe fabrication and module assembly projects. During the three and nine months ended September 30, 2015 we recognized favorable changes in estimates of losses on these projects of $4 million and $21 million, respectively, primarily due to negotiated settlements in the second quarter of 2015. During the three months ended September 30, 2014 we recognized favorable changes in estimates of losses of $2 million and unfavorable changes in our estimates of losses at completion of $80 million during the nine months ended September 30, 2014. We have completed or substantially completed these projects. We continue to finalize and negotiate financial closure of these projects with our customers. Our estimated losses as of September 30, 2015 on these projects represent our best estimate based on current information. Actual

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results could differ from the estimates we have used to account for these projects as of September 30, 2015.

Dispositions

On June 30, 2015, we closed on the sale of our Building Group subsidiary to a subsidiary of Pernix Group, Inc., for consideration of $23 million, net cash proceeds including working capital adjustments and the assumption of some liabilities. The sale of the Building Group within our Non-strategic Business segment is consistent with our restructuring plans announced in December 2014. The disposition resulted in a pre-tax gain of $27 million and is subject to future adjustments resulting from the finalization of the closing balance sheet. The gain is included under “gain on disposition of assets” on our condensed consolidated statements of operations

On September 30, 2015, we executed agreements to establish two strategic relationships within our E&C business segment. See Note 7 to our condensed consolidated financial statements for information about dispositions related to the establishment of these new strategic relationships.

Restructuring

Included in "other current liabilities" on our condensed consolidated balance sheets at September 30, 2015 and December 31, 2014 are $9 million and $21 million, respectively, representing unpaid termination benefits related to our workforce reduction which was announced as a part of our strategic reorganization in the last quarter of 2014. We recognized an additional $11 million of termination benefits within our E&C and Non-strategic Business segments in the second quarter. During 2015, we made payments of $23 million.

Subsequent Event

Subsequent to September 30, 2015, we reached a definitive agreement for the sale of our U.S. Infrastructure business within the Non-strategic Business segment.

Note 3. 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 cash balances are limited to joint venture activities and are not available for other projects, general cash needs or distribution to us without approval of the board of directors of the respective joint ventures. We expect to use joint venture cash for project costs and distributions of earnings related to joint venture operations. However, some of the earnings distributions may be paid to other KBR entities where the cash can be used for general corporate needs.

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

	September 30, 2015		
Dollars in millions	International (a)	Domestic (b)	Total
Operating cash and equivalents	$136	$298	$434
Time deposits	259	6	265
Cash and equivalents held in joint ventures	65	4	69
Total	$460	$308	$768

	December 31, 2014		
Dollars in millions	International (a)	Domestic (b)	Total
Operating cash and equivalents	$209	$121	$330
Time deposits	481	79	560
Cash and equivalents held in joint ventures	71	9	80
Total	$761	$209	$970

(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.

Our international cash balances are primarily held in Australia and the Netherlands.

Note 4. Accounts Receivable

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

	September 30, 2015		
Dollars in millions	Retainage	Trade & Other	Total
Technology & Consulting	$—	$68	$68
Engineering & Construction	36	411	447
Government Services	2	87	89
Other	—	5	5
Subtotal	38	571	609
Non-strategic Business	56	34	90
Total	$94	$605	$699

	December 31, 2014		
Dollars in millions	Retainage	Trade & Other	Total
Technology & Consulting	$—	$51	$51
Engineering & Construction	45	538	583
Government Services	5	84	89
Other	—	3	3
Subtotal	50	676	726
Non-strategic Business	48	73	121
Total	$98	$749	$847

In addition, noncurrent retainage receivable included in "other assets" on our condensed consolidated balance sheets was $1 million and $14 million as of September 30, 2015 and December 31, 2014, respectively, primarily in our Non-strategic Business segment.

Note 5. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Our CIE balances by business segment are as follows:

Dollars in millions	September 30, 2015	December 31, 2014
Technology & Consulting	$32	$38
Engineering & Construction	159	357
Government Services	90	73
Subtotal	281	468
Non-strategic Business	3	22
Total	$284	$490

Our BIE balances by business segment are as follows:

Dollars in millions	September 30, 2015	December 31, 2014
Technology & Consulting	$65	$56
Engineering & Construction	252	212
Government Services	90	93
Subtotal	407	361
Non-strategic Business	93	170
Total	$500	$531

Unapproved change orders and claims

The amounts of unapproved change orders and claims included in determining the profit or loss on contracts are as follows:

Dollars in millions	2015	2014
Amounts included in project estimates-at-completion at January 1,	$31	$115
Changes in estimates-at-completion	48	81
Approved (a)	(46)	(134)
Amounts included in project estimates-at-completion at September 30,	$33	$62
Amounts recorded in revenues on a percentage-of-completion basis at September 30,	$32	$53

(a) Includes $6 million of adjustments associated with the sale of our Building Group subsidiary in the second quarter of 2015.

The table above excludes unapproved change orders and claims related to our unconsolidated affiliates. Our proportionate share of unapproved change orders and claims on a percentage-of-complete basis was $59 million as of September 30, 2015 and $84 million as of September 30, 2014 on a project in our E&C business segment. The decrease is primarily due to changes in estimated costs of unapproved change orders related to our unconsolidated affiliates.

Liquidated damages

Some of our engineering and construction contracts have schedule dates and performance obligations that if not met could subject us to penalties for liquidated damages. These generally relate to specified activities that must be completed by a set contractual date or by achievement of a specified level of output or throughput. Each contract defines the conditions under which a customer may make a claim for liquidated damages. However, in some instances, liquidated damages are not asserted by the customer, but the potential to do so is used in negotiating or settling claims and closing out the contract.

It is possible that liquidated damages related to several projects totaling $6 million at September 30, 2015 and $12 million at December 31, 2014, respectively, (including amounts related to our share of unconsolidated subsidiaries), could be incurred if the projects are completed as currently forecasted. However, based upon our evaluation of our performance we have concluded these liquidated damages are not probable; therefore, they have not been recognized.

Note 6. Claims and Accounts Receivable

The components of our claims and accounts receivable account balance not expected to be collected within the next 12 months are as follows:

Dollars in millions	September 30, 2015	December 31, 2014
Engineering & Construction	$425	$425
Government Services	124	145
Total	$549	$570

Our E&C business segment's claims and accounts receivable includes $401 million related to our EPC 1 arbitration. See Note 12 to our condensed consolidated financial statements under PEMEX and PEP Arbitration for further discussion. The remaining balance is related to a construction project for which we are actively pursuing the recovery of these receivables.

Our GS business segment's claims and accounts receivable reflects claims for costs incurred under various U.S. government contracts. See "Other Matters" in Note 11 to our condensed consolidated financial statements for further discussion on our U.S. government claims.

Note 7. Equity Method Investments and Variable Interest Entities

We conduct some of our operations through joint ventures which operate through partnership, corporations, 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 also VIEs.

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

Dollars in millions	September 30, 2015	December 31, 2014
Beginning balance	$151	$156
Equity in earnings of unconsolidated affiliates	123	163
Distribution of earnings of unconsolidated affiliates	(84)	(249)
Advances	(10)	(13)
Investments (a)	76	—
Foreign currency translation adjustments	(9)	(1)
Other	2	—
Balance before reclassification	$249	$56
Reclassification of excess distribution	16	102
Recognition of excess distributions	(4)	(7)
Ending balance	$261	$151

(a) Investments include a $58 million investment in the Brown & Root Industrial Services joint venture and a $20 million investment in EPIC Piping, including prior quarter dispositions related to the Building Group. See below for further discussion related to joint venture formations and investments.

During 2014, we received cash dividends of $102 million in excess of the carrying value of one of our investments. We have no obligation to return any portion of the cash dividends received. We recorded the excess dividend amount as “deferred income from unconsolidated affiliates” on our condensed consolidated balance sheets and will recognize these dividends as earnings are generated by the investment. We recognized $7 million of the excess dividends during 2014. During 2015, we received an additional $16 million of cash dividends in excess of the carrying value of our investment and recognized $4 million of excess dividends.

New Investment

On September 30, 2015, we executed an agreement with Bernhard Capital Partners ("BCP"), the private equity firm, to establish the Brown & Root Industrial Services joint venture. In connection with the formation of the joint venture, we contributed our Industrial Services Americas business and received net cash consideration of $48 million and a 50% interest in the joint venture. As a result of the transaction, we no longer have a controlling interest in this Industrial Services business and have deconsolidated it effective September 30, 2015. The transaction resulted in a pre-tax gain of $7 million, which is included in “gain on disposition of assets” on our condensed consolidated statements of operations. The fair value of our retained interest in the former subsidiary was determined using both a market approach and an income approach. Cash consideration was the primary input used for the market approach.
The Brown & Root Industrial Services joint venture will continue to offer services similar or related to those offered when the business was part of KBR. Our interest in this venture is accounted for using the equity method and we have determined that the Brown & Root Industrial Services joint venture is not a VIE. Our continuing involvement in the joint venture will be through our 50% voting interest and representation on the board of managers. Consistent with our other equity investments, transactions between us and the joint venture, if any, will be deemed related party transactions. Also, in connection with this transaction, we entered into an agreement effective October 1, 2015 to provide specified transition services to the new joint venture over a limited duration. The joint venture will reimburse

us for all costs incurred on these transition services.

On September 30, 2015, we acquired general and limited partner interests in a partnership that owns a pipe fabrication business operating under the name EPIC Piping LLC ("EPIC"). BCP also holds general and limited partner interests in this partnership. Consideration for these interests was $15 million in cash and contribution of the majority of our Canada pipe fabrication and module assembly business. We have determined that this arrangement is not a VIE and we will account for our ownership interest using the equity method. In addition, we entered into an alliance agreement with EPIC to provide certain pipe fabrication services to KBR. As a result of these transactions we recognized a $9 million charge on the early termination of leases related to a Canadian fabrication yard and a $5 million impairment of our Canadian enterprise resource planning assets.

Related Party Transactions

We often provide engineering, construction management and other services as a subcontractor to the joint ventures in which we participate. The amounts included in our revenues represent revenues from services we provide directly to the joint ventures. For the three and nine months ended September 30, 2015 our revenues included $96 million and $223 million, respectively, related to services we provided to our joint ventures, primarily those in our E&C business segment. For the three and nine months ended September 30, 2014 our revenues included $84 million and $228 million, respectively, related to services we provided to our joint ventures in our E&C business segment.

Amounts included in our condensed consolidated balance sheets related to services we provided to our unconsolidated joint ventures as of September 30, 2015 and December 31, 2014 are as follows:

Dollars in millions	September 30, 2015	December 31, 2014
Accounts receivable, net of allowance for doubtful accounts	$10	$7
Costs and estimated earnings in excess of billings on uncompleted contracts	$6	$2
Billings in excess of costs and estimated earnings on uncompleted contracts	$52	$21

Our related party accounts payable for both periods were immaterial.

Unconsolidated Variable Interest Entities

Generally, our maximum exposure to loss is limited to our equity investment in the joint venture and any amounts payable to us for services we provided to the joint venture reduced for any unearned revenues on the projects. On the Aspire Defence project, in addition to the maximum exposure to loss indicated in the table below, we have exposure to any losses incurred by the construction or operating joint ventures under their respective subcontract arrangements with the project company. Our exposure is, however, limited to our equity participation in these entities. The Ichthys liquefied natural gas ("LNG") project joint venture executes a project that has a lump sum component; in addition to the maximum exposure to loss indicated in the table below, we have an exposure to losses to the extent of our ownership percentage in the joint venture if the project exceeds the lump sum component. Our maximum exposure to loss on the EBIC Ammonia plant reflects our 65% ownership of the development corporation which owns 25% of the company that consolidates the ammonia plant. We continue to monitor our investment in this joint venture as the profitability of its operations has been impacted by the challenges related to the availability of natural gas feedstock in Egypt.

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

	September 30, 2015		
Dollars in millions	Total assets	Total liabilities	Maximum exposure to loss
Aspire Defence project	$15	$ 127	$15
Ichthys LNG project	$72	$ 58	$72
U.K. Road projects	$35	$ 11	$35

EBIC Ammonia plant (65% interest)	$37	$ 2	$23

Dollars in millions	December 31, 2014 Total assets	Total liabilities	Maximum exposure to loss
Aspire Defence project	$17	$ 118	$17
Ichthys LNG project	$49	$ 35	$49
U.K. Road projects	$34	$ 11	$34
EBIC Ammonia plant (65% interest)	$42	$ 2	$26

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, 2015 Total assets	Total liabilities
Gorgon LNG project	$152	$ 176
Escravos Gas-to-Liquids project	$15	$ 31
Fasttrax Limited project	$80	$ 75

Dollars in millions	December 31, 2014 Total assets	Total liabilities
Gorgon LNG project	$282	$ 309
Escravos Gas-to-Liquids project	$23	$ 36
Fasttrax Limited project	$83	$ 81

Acquisition of Noncontrolling Interest

During the three months ended March 31, 2015, we entered into an agreement to acquire the noncontrolling interest in one of our consolidated joint ventures for $40 million. We paid the partner previously accrued expenses of $8 million. The acquisition of these shares was recorded as an equity transaction, with a $40 million reduction in our paid-in capital in excess of par.

Note 8. Pension Plans

The components of net periodic benefit cost related to pension benefits for the three and nine months ended September 30, 2015 and 2014 were as follows:

Dollars in millions	Three Months Ended September 30, 2015		2014	
	United States	Int'l	United States	Int'l
Components of net periodic benefit cost				
Service cost	$—	$—	$—	$1
Interest cost	1	19	1	23
Expected return on plan assets	—	(24)	(1)	(26)
Recognized actuarial loss	1	11	1	10
Net periodic benefit cost	$2	$6	$1	$8

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Dollars in millions	Nine Months Ended September 30, 2015		2014	
	United States	Int’l	United States	Int’l
Components of net periodic benefit cost				
Service cost	$—	$1	$—	$2
Interest cost	2	57	2	68
Expected return on plan assets	(2)	(73)	(3)	(78)
Recognized actuarial loss	4	33	3	29
Net periodic benefit cost	$4	$18	$2	$21

For the nine months ended September 30, 2015, we have contributed approximately $32 million of the $43 million we expect to contribute to our international plans in 2015. For the nine months ended September 30, 2015, we have also contributed $5 million to one of our domestic plans that we are in the process of terminating.

Note 9. Debt and Other Credit Facilities

Credit Agreement

On September 25, 2015, we entered into a new $1 billion, unsecured revolving credit agreement (the “Credit Agreement”) with a syndicate of banks replacing the previous agreement which was scheduled to mature in December 2016. The Credit Agreement is guaranteed by certain of the Company's domestic subsidiaries, matures in September 2020 and is available for cash borrowings and the issuance of letters of credit related to general corporate needs. Subject to certain conditions, we may request (i) that the aggregate commitments under the Credit Agreement be increased by up to an additional $500 million, and (ii) that the maturity the Credit Agreement be extended by two additional one-year terms.

Amounts drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (i) the London interbank offered rate (“LIBOR”) plus an applicable margin of 1.375% to 1.75%, or (ii) a base rate plus an applicable margin of 0.375% to 0.75%, with the base rate equal to the highest of (a) reference bank’s publicly announced base rate, (b) the Federal Funds Rate plus 0.5%, or (c) LIBOR plus 1%. The amount of the applicable margin to be applied will be determined by the Company’s ratio of consolidated debt to consolidated EBITDA for the prior four fiscal quarters, except for the period ended September 30, 2015, for which the prior three fiscal quarters are utilized, as defined in the Credit Agreement. The Credit Agreement provides for fees on letters of credit issued under the Credit Agreement at a rate equal to the applicable margin for LIBOR-based loans, except for performance letters of credit, which are priced at 50% of such applicable margin. KBR pays an annual issuance fee of 0.125% of the face amount of a letter of credit and pays a commitment fee of 0.225% to 0.25%, per annum, on any unused portion of the commitment under the Credit Agreement based on the Company's consolidated leverage ratio. As of September 30, 2015, there were $130 million in letters of credit and no cash borrowings outstanding.

The Credit Agreement contains customary covenants, as defined in the Credit Agreement, which include financial covenants requiring maintenance of a ratio of consolidated debt to consolidated EBITDA not greater than 3.5 to 1 and a minimum consolidated net worth of $1.2 billion plus 50% of consolidated net income for each quarter beginning September 30, 2015 and 100% of any increase in shareholders’ equity attributable to the sale of equity interests. As of September 30, 2015, we were in compliance with our financial covenants.

The Credit Agreement contains a number of other covenants restricting, among other things, our ability to incur additional liens and indebtedness, enter into asset sales, repurchase our equity shares and make certain types of investments. Our subsidiaries are restricted from incurring indebtedness, except if such indebtedness relates to purchase money obligations, capitalized leases, refinancing or renewals secured by liens upon or in property acquired, constructed or improved in an aggregate principal amount not to exceed $200 million outstanding at any time. Additionally, our subsidiaries may incur unsecured indebtedness not to exceed $200 million in aggregate outstanding principal amount at any time. We are also permitted to repurchase our equity shares, provided that no such repurchases shall be made from proceeds borrowed under the Credit Agreement, and that the aggregate purchase price and dividends paid after September 25, 2015, does not exceed the Distribution Cap (equal to the sum of $750 million plus the lesser of (1) $400 million and (2) the amount received by us in connection with the arbitration and subsequent litigation of the PEP contracts as discussed in Note 12 to our condensed consolidated financial statements). As of September 30, 2015, the remaining availability under the Distribution Cap was approximately $750 million.

Nonrecourse Project Debt

Fasttrax Limited, a 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. Ministry of Defense ("MoD") to provide a Heavy Equipment Transporter Service to the British Army. See Note 7 to our condensed consolidated financial statements for further discussion on the joint venture. Under the terms of the arrangement, Fasttrax Limited operates and maintains 91 heavy equipment transporters (“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 a bridge loan totaling approximately £84.9 million (approximately $120 million at the exchange rate on the date of the transaction). 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 bridge loan of approximately £12.2 million (approximately $17 million at the exchange rate on the date of the transaction) was replaced when the joint venture partners funded their equity and subordinated debt contributions in 2005.

The secured bonds were issued in two classes consisting of Class A 3.5% Index Linked Bonds in the amount of £56 million (approximately $79 million at the exchange rate on the date of the transaction) and Class B 5.9% Fixed Rate Bonds in the amount of £16.7 million (approximately $24 million at the exchange rate on the date of the transaction). Semi-annual payments on both classes of bonds commenced in March 2005 and will continue through maturity in 2021. The subordinated notes payable to each of the partners initially bear interest at 11.25% increasing to 16% over the term of the notes until maturity in 2025. Semi-annual payments on the subordinated notes commenced in March 2006. For financial reporting purposes, only our partner's portion of the subordinated notes appears in the condensed consolidated financial statements.

Note 10. Income Taxes

The effective tax rate was approximately 24% and 26% for the three and nine months ended September 30, 2015, respectively. The effective tax rate for both the three and nine months ended September 30, 2015 includes the net effect of changes in our reserve for uncertain tax positions, additional prior year foreign withholding taxes and other net changes.

The effective tax rate was approximately (2)% and 48% for the three and nine months ended September 30, 2014, respectively. The effective tax rate for the three months ended September 30, 2014 was impacted by discrete tax benefits including a reduction in our reserve for uncertain tax positions as a result of lapse of stature of limitations. The effective tax rate for the nine months ended September 30, 2014 includes the recognition of a valuation allowance on the losses recognized on our Canadian pipe fabrication and module assembly projects.

Our estimated annual rate for 2015 is 25%, which is lower than the U.S. statutory rate of 35% due to lower tax rates on foreign earnings and noncontrolling interests of approximately 5% and 9%, respectively, offset by an increase in the estimated annual rate due to withholding tax obligations for which we do not expect to recognize an offsetting foreign tax credit in 2015. Our estimated annual effective rate is subject to change based on the actual jurisdictions where our 2015 earnings are generated.

The valuation allowance for deferred tax assets as of September 30, 2015 and December 31, 2014 was $478 million and $538 million, respectively. The change in the valuation allowance was a decrease of $48 million and an increase of $3 million in the three months ended September 30, 2015 and 2014, respectively and a decrease of $60 million and increase of $35 million for the nine months ended September 30, 2015 and 2014, respectively. The valuation allowance is primarily related to U.S. federal, foreign and state net operating loss carryforwards, foreign tax credit carryforwards and other deferred tax assets that, in the judgment of management, are not more-likely-than-not to be realized. The decrease in the valuation allowance is primarily related to the utilization of federal tax attributes as a result of the gains on disposition of assets and jurisdictional sourcing of profits. The tax benefit associated with the reduction in the valuation allowance is reflected in our estimated annual effective tax rate for the year.

The reserve for uncertain tax positions included in "other liabilities" and "deferred income taxes" on our condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 was $253 million and $228 million, respectively. The net increase in the uncertain tax position for the three months ended September 30, 2015 and 2014 was $18 million and $57 million, respectively, and $25 million and $57 million for the nine months ended September 30, 2015 and 2014, respectively. During the three and nine months ended September 30, 2015, the net change includes approximately $43 million in increases in uncertain tax positions in foreign jurisdictions offset by $16 million benefits from lapse of statute of limitations. During the three and nine months ended September 30, 2014, we recognized an approximately $62 million increase in our reserve for uncertain tax positions related to a 2009 amended tax return position and a $5 million benefit from lapse of statute of limitations.

Note 11. U.S. Government Matters

We provide services to various U.S. governmental agencies, which include the U.S. Department of Defense ("DoD") 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.

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 continue to support the U.S. government around the world under the LogCAP IV and other contracts. We have been in the process of closeout of the LogCAP III contract since 2011, and we expect the closeout process to continue through at least 2017. As a result of our work under LogCAP III, there are multiple claims and disputes pending between us and the U.S. government, all of which need to be resolved to close the contracts. The closeout process includes resolving objections raised by the U.S. government through a billing dispute process referred to as Form 1s and Memorandums for Record ("MFRs") and resolving results from U.S. government audits. 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 Armed Services Board of Contract Appeals ("ASBCA") or the U.S. Court of Federal Claims ("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. At this time, we cannot determine the timing or net amounts to be collected or paid to close out these contracts.

Form 1s

The U.S. government has issued Form 1s questioning or objecting to costs we billed to them. We believe the amounts we have invoiced the U.S. government are in compliance with our contract terms; however, we continue to evaluate our ability to recover these amounts as new information becomes known. A summary of our Form 1s received and amounts associated with our Form 1s is as follows:

Dollars in millions	September 30, 2015	December 31, 2014
Form 1s issued by the U.S. government and outstanding (a)	$174	$188
Amounts withheld by U.S. government (included in the Form 1s amount above) (b)	83	96
Amounts withheld from subcontractors by us	32	32
Claims loss accruals (c)	26	25

(a) Included in the amounts shown is $56 million related to our Private Security matter discussed below.

(b) Recorded in "claims and accounts receivable" on our condensed consolidated balance sheets. We believe these amounts are probable of collection. See discussions below for details of amounts withheld by the U.S. government on Form 1s.

(c) Recorded as a reduction to "claims and accounts receivable" and in "other liabilities" on our condensed consolidated balance sheets. At this time, we believe the likelihood we would incur a loss related to these matters in excess of the loss accruals we have recorded is remote.

Summarized below are some of the details associated with individual Form 1s as part of the total explained above.

Private Security. Starting in February 2007, we received a series of Form 1s from the Defense Contract Audit Agency ("DCAA") informing us of the U.S. government's intent to deny reimbursement to us under the LogCAP III contract for amounts related to the use of private security contractors ("PSCs") by KBR and a subcontractor in connection with its work for KBR providing dining facility services in Iraq between 2003 and 2006. The U.S. government challenged

$56 million in billings. The U.S. government had previously paid $11 million and has withheld payments of $45 million, which as of September 30, 2015 we have recorded as due from the U.S. 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 that the LogCAP III contract did not prohibit the use of PSCs to provide force protection to KBR or subcontractor personnel, that there was a need for force protection and that the costs were reasonable. The ASBCA also found that the Army breached its obligation to provide force protection. Accordingly, we believe that we are entitled to reimbursement by the Army for the amounts charged by our subcontractors, even if they incurred costs for PSCs. The Army appealed and on September 15, 2015, the Federal Court ruled, affirming the ASBCA's decision in part, reversing in part, and remanding the issue of the Government's alleged breach of contract to the ASBCA for further consideration and definitive ruling. We are reviewing our options as to the most effective path forward. Any motion for rehearing must be filed by October 30, 2015. At this time, 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.

Containers. In June 2005, the DCAA questioned billings on costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. The Defense Contract Management Agency ("DCMA") recommended that payment for the billings be withheld pending receipt of additional explanation or documentation to support the subcontract costs. The Form 1 was issued for $51 million in billings. Of this amount, the U.S. government had previously paid $25 million and has withheld payments of $26 million, which as of September 30, 2015, we have recorded in "claims and accounts receivable" on our condensed consolidated balance sheets.

Included in "other liabilities" on our condensed consolidated balance sheets is $30 million of payments withheld from subcontractors related to pay-when-paid contractual terms. At this time, we believe that the likelihood we would incur a loss related to this matter in excess of the amounts we have withheld from subcontractors and the loss accruals we have recorded is remote.

There are three related actions stemming from the DCMA's action to disallow and withhold funds. First, in April 2008, we filed a counterclaim in arbitration against our LogCAP III subcontractor, First Kuwaiti Trading Company, to recover the amounts we paid to the subcontractor for containerized housing if we should lose the contract dispute with the U.S. government over the validity of the container claims. Those claims are still pending. Second, during the first quarter of 2011, we