

KBR, INC.

FORM 8-K (Current report filing)

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|-------------|---|
| Address | 601 JEFFERSON STREET SUITE 3400 HOUSTON, TX 77002 |
| Telephone | (713) 753-3834 |
| CIK | 0001357615 |
| Symbol | KBR |
| SIC Code | 1600 - Heavy Construction Other Than Bldg Const - Contractors |
| Industry | Construction Services |
| Sector | Capital Goods |
| Fiscal Year | 12/31 |

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **July 31, 2014**

KBR, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-33146
(Commission File Number)

20-4536774
(IRS Employer
Identification No.)

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

Registrant's telephone number, including area code: (**713**) **753-3011**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.02. Results of Operations and Financial Conditions.

On July 31, 2014, KBR, Inc. issued a press release entitled, "KBR Announces Second Quarter 2014 Financial Results." The full text of the press release is attached hereto as Exhibit 99.1.

ITEM 9.01 Financial Statements and Exhibits.

(d) Exhibits.

99.1 KBR, Inc. press release dated July 31, 2014 entitled, "KBR Announces Second Quarter 2014 Financial Results."

SIGNATURE

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 hereunto duly authorized.

KBR, INC.

Date July 31, 2014

By: /s/ Jeffrey B. King
Jeffrey B. King
Vice President, Public Law

KBR Announces Second Quarter 2014 Financial Results

- Strong bookings in Hydrocarbons and IGP segments
- Continued strong operational performance in Gas Monetization and Hydrocarbons business segments
- Cash and cash equivalents of \$1 billion at June 30, 2014



HOUSTON, Texas — July 31, 2014 — KBR, Inc. (NYSE: KBR), a global engineering, construction and services company supporting the energy, hydrocarbons, power, industrial, civil infrastructure, minerals, government services and commercial markets, announced today its second quarter 2014 financial results.

Net loss attributable to KBR was \$8 million, or \$0.06 per diluted share, compared to net income attributable to KBR of \$90 million, or \$0.61 per diluted share, in the second quarter of 2013. Consolidated revenue in the second quarter of 2014 was \$1.7 billion compared with \$2.0 billion in the second quarter of 2013.

“While our second quarter consolidated results improved sequentially, they remain well below our expectations and reflect ongoing losses in our Canadian pipe fabrication and module assembly business,” said Stuart Bradie, President and Chief Executive Officer of KBR, Inc. “However, we delivered significantly improved overall bookings, particularly in our Hydrocarbons and Infrastructure, Government and Power segments and our Gas Monetization and Hydrocarbons segments continue to perform well. Looking forward, we have a number of good Engineering, Procurement and Construction prospects in our Gas Monetization and Hydrocarbons segments, especially in North America. Fundamentally, KBR remains a strong, global company with talented people and a diverse portfolio of businesses and technical capabilities. Our goal is to deliver safe, best-in-class operational performance, improved cash management and efficient capital allocation.”

Business Discussion (All comparisons are second quarter 2014 versus second quarter 2013, unless otherwise noted.)

Gas Monetization Results

Gas Monetization revenue was \$362 million, down \$231 million, primarily due to reduced business volumes on a gas-to-liquids (GTL) project in Nigeria and a liquefied natural gas (LNG) project in Algeria as these major projects were mainly completed in 2013. Gross profit was \$48 million, down \$32 million, primarily due to additional fees and recoveries recognized on an LNG project in 2013 that did not reoccur in 2014 and higher bid and proposal costs related to multi-billion dollar EPC projects that the company is pursuing in 2014 for expected awards in 2015.

Gas Monetization equity in earnings of unconsolidated affiliates was \$18 million, up \$1 million, due to increased activity on an LNG project in Australia. This project continues to perform well.

Hydrocarbons Results

Hydrocarbons revenue was \$533 million, up \$189 million, while Hydrocarbons gross profit was \$34 million, down \$10 million. Revenue growth is primarily due to the high volume of EPC projects the Company is executing for the Downstream ammonia, urea and ethylene markets in North America. During the quarter, the segment had solid bookings globally, particularly in petrochemicals and refining. The Company expects additional new awards in North America in the second half of 2014 driven by continued strong shale gas project economics. The decrease in gross profit was primarily due to the shift in business mix from lower revenue with higher margin services projects to higher revenue with lower margin EPC projects and increased proposal costs related to the high volume of bid activity the Company is seeing in the segment.

Infrastructure, Government and Power (IGP) Results

IGP revenue was \$315 million, down \$60 million, while gross profit was a loss of \$20 million, down \$28 million. Bookings were strong in the quarter driven primarily by a large combined-cycle Power EPC project award in Marshalltown, Iowa, and a Capability Support Coordinator (CSC) services award for the Australian Defence Force for Landing Helicopter Dock (LHD) ships. The decrease in gross profit was primarily due to reduced volumes of activity associated with the U.S. Government’s LogCAP IV contract of \$9 million and the LogCAP III and Restore Iraqi Oil (RIO) contracts of \$6 million, and lower bookings in previous quarters. The decrease was also due to reduced work volumes on Infrastructure and Minerals projects and a \$14 million impact in the quarter for higher expected costs on a North American Power project. The Company continues to see robust prospects in the International Government and Defence space for work supporting the U.K. MoD and Foreign Affairs, the U.K. Police and other local government support services, the Australian Defence Force and supporting a number of U.S. overseas base operations.

IGP equity in earnings of unconsolidated affiliates was \$24 million, up \$6 million. The increase was primarily due to \$15 million in reduced costs and insurance proceeds received on a U.K. construction project, partially offset by lower work volumes on the construction element of the project as it nears completion.

Services Results

Services revenue was \$439 million, down \$181 million. Gross profit was a loss of \$40 million, down \$60 million, primarily due to lower work volumes on North American Construction projects and \$41 million in increased construction labor costs forecast to complete several problem Canadian pipe fabrication and module assembly projects.

Services equity in earnings of unconsolidated affiliates was zero, down \$3 million, primarily due to the offshore maintenance vessels for KBR’s Mexican joint venture not being in service for the entirety of the second quarter. These vessels are now in service and we expect utilization to improve in the future.

Corporate

Corporate general and administrative expense was \$60 million, down \$3 million, resulting from the success of ongoing cost reduction initiatives.

Labor Cost Absorption

Second quarter of 2014 labor cost absorption (LCA) was favorable \$1 million, an \$18 million improvement from the prior year's second quarter. The main drivers were reduced costs from the Company's cost savings initiatives and improved chargeability to contracts in KBR's global offices.

Net Income Attributable to Noncontrolling Interests

Net Income Attributable to Noncontrolling Interests was \$16 million, down \$5 million, primarily due to higher fees and recoveries on an LNG project in Australia in the prior year second quarter.

Capital Allocation

During the second quarter, the Company generated \$37 million in cash flows from operations and spent \$40 million on share repurchases and \$12 million on Dividends. Year-to-date, KBR has expended \$24 million on Dividends and \$96 million to repurchase 3.5 million shares.

Second Quarter 2014 Significant Achievements and Awards

- KBR was awarded full notice to proceed on an engineering, procurement, and construction contract for Iowa Generating Station.
- KBR was awarded the FERC front end engineering and design (FEED) contract for Gulf LNG Liquefaction Company, LLC.
- KBR was awarded the Maersk Oil FEED contract for the Culzean Field Development Topsides.
- KBR was awarded a project management consultancy contract for participation in the major revamp program for the largest refinery in Siberia.
- KBR was awarded a contract to construct a luxury high-rise apartment tower in Bethesda, Md.

About KBR

KBR is a global engineering, construction and services company supporting the energy, hydrocarbons, power, industrial, civil infrastructure, minerals, government services and commercial markets. For more information, visit www.kbr.com.

Forward-Looking Statements

The statements in this press release that are not historical statements, including statements regarding future financial performance and backlog information, are forward-looking statements within the meaning of the federal securities laws. These statements are subject to numerous risks and uncertainties, many of which are beyond the company's control that could cause actual results to differ materially from the results expressed or implied by the statements. These risks and uncertainties include, but are not limited to: the outcome of and the publicity surrounding audits and investigations by domestic and foreign government agencies and legislative bodies; potential adverse proceedings by such agencies and potential adverse results and consequences from such proceedings; the scope and enforceability of the company's indemnities from its former parent; changes in capital spending by the company's customers; the company's ability to obtain contracts from existing and new customers and perform under those contracts; structural changes in the industries in which the company operates, escalating costs associated with and the performance of fixed-fee projects and the company's ability to control its cost under its contracts; claims negotiations and contract disputes with the company's customers; changes in the demand for or price of oil and/or natural gas; protection of intellectual property rights; compliance with environmental laws; changes in government regulations and regulatory requirements; compliance with laws related to income taxes; unsettled political conditions, war and the effects of terrorism; foreign operations and foreign exchange rates and controls; the development and installation of financial systems; increased competition for employees; the ability to successfully complete and integrate acquisitions; and operations of joint ventures, including joint ventures that are not controlled by the company.

KBR's most recently filed Annual Report on Form 10-K/A, any subsequent Form 10-Qs and 8-Ks, and other Securities and Exchange Commission filings discuss some of the important risk factors that KBR has identified that may affect the business, results of operations and financial condition. Except as required by law, KBR undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

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KBR, Inc.: Condensed Consolidated Statements of Income
(Millions, except per share data) (Unaudited)

| | Three Months Ended | | |
|--|--------------------|------------------|-------------------|
| | June 30, 2014 | June 30, 2013 | March 31, 2014 |
| Revenue: | | | |
| Gas Monetization | \$ 362 | \$ 593 | \$ 400 |
| Hydrocarbons | 533 | 344 | 452 |
| Infrastructure, Government and Power | 315 | 375 | 337 |
| Services | 439 | 620 | 433 |
| Other | 10 | 18 | 11 |
| Total revenue | 1,659 | 1,950 | 1,633 |
| Gross profit (loss): | | | |
| Gas Monetization | 48 | 80 | 95 |
| Hydrocarbons | 34 | 44 | 22 |
| Infrastructure, Government and Power | (20) | 8 | (20) |
| Services | (40) | 20 | (60) |
| Other | 5 | 5 | 5 |
| Labor cost absorption not allocated to the business segments - favorable (unfavorable) | 1 | (17) | (3) |
| Total gross profit | 28 | 140 | 39 |
| Equity in earnings of unconsolidated affiliates: | | | |
| Gas Monetization | 18 | 17 | 16 |
| Hydrocarbons | - | - | - |
| Infrastructure, Government and Power | 24 | 18 | 9 |
| Services | - | 3 | - |
| Other | 7 | 8 | 6 |
| Total equity in earnings of unconsolidated affiliates | 49 | 46 | 31 |
| General and administrative expenses | (60) | (63) | (60) |
| Gain on disposition of assets | 8 | - | - |
| Operating income | 25 | 123 | 10 |
| Interest expense, net of interest income | (2) | (1) | (2) |
| Foreign currency gains (losses) | (4) | 4 | (7) |
| Other non-operating expenses | (1) | - | - |
| Income before income taxes and noncontrolling interests | 18 | 126 | 1 |
| Provision for income taxes | (10) | (15) | (21) |
| Net income (loss) | 8 | 111 | (20) |
| Net income attributable to noncontrolling interests | (16) | (21) | (23) |
| Net income (loss) attributable to KBR | \$ (8) | \$ 90 | \$ (43) |
| Net income (loss) attributable to KBR per share: | | | |
| Basic | \$ (0.06) | \$ 0.61 | \$ (0.29) |
| Diluted | \$ (0.06) | \$ 0.61 | \$ (0.29) |
| Basic weighted average shares outstanding | 145 | 147 | 146 |
| Diluted weighted average shares outstanding | 145 | 148 | 146 |
| Cash dividends declared per share | \$ 0.08 | \$ 0.08 | \$ 0.08 |

(Millions, except per share data) (Unaudited)

| | Six Months Ended | |
|--|------------------|------------------|
| | June 30, 2014 | June 30, 2013 |
| Revenue: | | |
| Gas Monetization | \$ 762 | \$ 1,188 |
| Hydrocarbons | 985 | 686 |
| Infrastructure, Government and Power | 652 | 774 |
| Services | 872 | 1,098 |
| Other | 21 | 33 |
| Total revenue | 3,292 | 3,779 |
| Gross profit (loss): | | |
| Gas Monetization | 143 | 169 |
| Hydrocarbons | 56 | 93 |
| Infrastructure, Government and Power | (40) | 27 |
| Services | (100) | 31 |
| Other | 10 | 8 |
| Labor cost absorption not allocated to the business segments - favorable (unfavorable) | (2) | (32) |
| Total gross profit | 67 | 296 |
| Equity in earnings of unconsolidated affiliates: | | |
| Gas Monetization | 34 | 27 |
| Hydrocarbons | - | - |
| Infrastructure, Government and Power | 33 | 26 |
| Services | - | 10 |
| Other | 13 | 13 |
| Total equity in earnings of unconsolidated affiliates | 80 | 76 |
| General and administrative expenses | (120) | (115) |
| Gain (loss) on disposition of assets | 8 | (1) |
| Operating income | 35 | 256 |
| Interest expense, net of interest income | (4) | (2) |
| Foreign currency losses | (11) | - |
| Other non-operating expenses | (1) | (1) |
| Income before income taxes and noncontrolling interests | 19 | 253 |
| Provision for income taxes | (31) | (45) |
| Net income (loss) | (12) | 208 |
| Net income attributable to noncontrolling interests | (39) | (30) |
| Net income (loss) attributable to KBR | \$ (51) | \$ 178 |
| Net income (loss) attributable to KBR per share: | | |
| Basic | \$ (0.35) | \$ 1.21 |
| Diluted | \$ (0.35) | \$ 1.20 |
| Basic weighted average shares outstanding | 146 | 147 |
| Diluted weighted average shares outstanding | 146 | 148 |
| Cash dividends declared per share | \$ 0.16 | \$ 0.08 |

KBR, Inc.: Condensed Consolidated Balance Sheets
(Millions)

| | June 30, 2014 | December 31, 2013 |
|--|------------------|----------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 969 | \$ 1,106 |
| Accounts receivable, net of allowance for doubtful accounts of \$23 and \$18 | 962 | 1,056 |
| Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") | 515 | 399 |
| Deferred income taxes | 132 | 168 |
| Other current assets | 167 | 196 |
| Total current assets | 2,745 | 2,925 |
| Property, plant and equipment, net of accumulated depreciation of \$426 and \$397 (including net PPE of \$66 and \$67 owned by a variable interest entity) | 421 | 415 |
| Goodwill | 774 | 772 |
| Intangible assets, net of amortization | 80 | 85 |
| Equity in and advances to unconsolidated affiliates | 174 | 156 |
| Deferred income taxes | 377 | 344 |
| Claims and accounts receivable | 625 | 628 |
| Other assets | 115 | 113 |
| Total assets | \$ 5,311 | \$ 5,438 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 726 | \$ 747 |
| Payable to former parent | 107 | 105 |
| Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE") | 436 | 401 |
| Accrued salaries, wages and benefits | 234 | 235 |
| Nonrecourse project debt | 10 | 10 |
| Other current liabilities | 397 | 409 |
| Total current liabilities | 1,910 | 1,907 |
| Pension obligations | 462 | 477 |
| Employee compensation and benefits | 120 | 114 |
| Income tax payable | 65 | 70 |
| Deferred income taxes | 86 | 86 |
| Nonrecourse project debt | 74 | 78 |
| Other liabilities | 255 | 267 |
| Total liabilities | 2,972 | 2,999 |
| KBR shareholders' equity: | | |
| Preferred stock | - | - |
| Common stock | - | - |
| Paid-in capital in excess of par | 2,081 | 2,065 |
| Accumulated other comprehensive loss | (701) | (740) |
| Retained earnings | 1,673 | 1,748 |
| Treasury stock | (704) | (610) |
| Total KBR shareholders' equity | 2,349 | 2,463 |
| Noncontrolling interests ("NCI") | (10) | (24) |
| Total shareholders' equity | 2,339 | 2,439 |
| Total liabilities and shareholders' equity | \$ 5,311 | \$ 5,438 |

KBR, Inc.: Condensed Consolidated Statements of Cash Flows
(Millions) (Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|---------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (12) | \$ 208 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 36 | 31 |
| Equity in earnings of unconsolidated affiliates | (80) | (76) |
| Deferred income tax expense | 11 | 103 |
| Other | 21 | 9 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net of allowance for doubtful accounts | 93 | (60) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (88) | (55) |
| Accounts payable | (31) | (31) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 8 | (1) |
| Accrued salary, wages and benefits | (1) | (18) |
| Reserve for loss on uncompleted contracts | 17 | (16) |
| Receipts of advances from unconsolidated affiliates, net | 7 | 6 |
| Distributions of earnings received from unconsolidated affiliates | 59 | 101 |
| Payment on performance bonds for EPC 1 project in Mexico | - | (108) |
| Income taxes payable | 20 | (155) |
| Pension funding | (24) | (12) |
| Other assets and liabilities | (16) | (23) |
| Total cash flows provided by (used in) operating activities | 20 | (97) |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (34) | (40) |
| Proceeds from sale of assets and investments | 9 | 6 |
| Total cash flows used in investing activities | (25) | (34) |
| Cash flows from financing activities: | | |
| Payments to reacquire common stock | (96) | (6) |
| Distributions to noncontrolling interests, net of investments | (25) | (46) |
| Payments of dividends to shareholders | (24) | (12) |
| Net proceeds from issuance of common stock | 4 | 4 |
| Excess tax benefits from stock-based compensation | 1 | - |
| Payments on short-term and long-term borrowings | (7) | (9) |
| Total cash flows used in financing activities | (147) | (69) |
| Effect of exchange rate changes on cash | 15 | (53) |
| Decrease in cash and equivalents | (137) | (253) |
| Cash and equivalents at beginning of period | 1,106 | 1,053 |
| Cash and equivalents at end of period | \$ 969 | \$ 800 |

| | June 30, 2014 | March 31, 2014 | December 31, 2013 |
|--------------------------------------|------------------|-------------------|----------------------|
| Gas Monetization | \$ 5,223 | \$ 5,766 | \$ 6,169 |
| Hydrocarbons | 2,299 | 2,417 | 2,619 |
| Infrastructure, Government and Power | 2,250 | 1,846 | 2,079 |
| Services | 1,769 | 2,027 | 2,254 |
| Other | 950 | 957 | 997 |
| Total backlog^(b) | \$ 12,491 | \$ 13,013 | \$ 14,118 |

(a) Backlog is presented differently depending on whether the contract is consolidated by KBR or is accounted for under the equity method of accounting. Backlog related to consolidated projects is presented as 100% of the expected revenue from the project. Backlog generally includes total expected revenue in backlog when a contract is awarded and/or the scope is definitized. Where contract duration is indefinite, projects included in backlog are limited to the estimated amount of expected revenue within the following twelve months. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract being agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorized are included in backlog. For projects where KBR acts solely in a project management capacity, KBR only includes the management fee revenue of each project in backlog. For certain long-term service contracts with a defined contract term, such as those associated with privately financed projects, the amount included in backlog is limited to five years.

Included in the backlog table above is our proportionate share of unconsolidated joint ventures estimated revenue. However, because these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our backlog for projects related to unconsolidated joint ventures totaled \$5.2 billion, \$5.3 billion and \$5.5 billion at June 30, 2014, March 31, 2014, and December 31, 2013, respectively. Our backlog related to consolidated joint ventures with noncontrolling interest totaled \$1.1 billion, \$1.3 billion and \$1.5 billion at June 30, 2014, March 31, 2014, and December 31, 2013, respectively.

As of June 30, 2014, 44% of our backlog was attributable to fixed-price contracts and 56% was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the components as either fixed-price or cost-reimbursable according to the composition of the contract except for smaller contracts where we characterize the entire contract based on the predominate component.

All backlog is attributable to firm orders as of June 30, 2014, March 31, 2014, and December 31, 2013.

(b) Backlog attributable to unfunded government orders was \$0.1 billion, \$0.1 billion and \$0.2 billion as of June 30, 2014, March 31, 2014, and December 31, 2013, respectively.