

KBR, INC.

FORM 8-K (Current report filing)

Filed 11/28/06 for the Period Ending 11/21/06

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

KBR, INC.

FORM 8-K (Current report filing)

Filed 11/28/2006 For Period Ending 11/21/2006

Address	601 JEFFERSON STREET SUITE 3400 HOUSTON, Texas 77002
Telephone	(713) 753-3011
CIK	0001357615
Industry	Construction Services
Sector	Capital Goods
Fiscal Year	12/31

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**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): November 21, 2006

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**
(Address of principal executive offices)

77002
(Zip Code)

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 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Following the closing of KBR, Inc.'s ("KBR") initial public offering of its common stock on November 21, 2006, the compensation committee of the board of directors of KBR granted an award of 129,410 shares of restricted KBR common stock to William P. Utt, the President and Chief Executive Officer of KBR. The award was granted under the KBR, Inc. 2006 Stock and Incentive Plan and made pursuant to the terms of Mr. Utt's employment agreement with KBR. Under the terms of the award, 20% of the restricted shares are scheduled to vest on each of the first five anniversaries of the grant date.

Also on November 21, 2006 following the closing of KBR's initial public offering, the compensation committee of the board of directors of KBR granted an award of 19,257 restricted stock units and options to purchase 22,846 shares of KBR common stock to Bruce A. Stanski, the Executive Vice President, Government and Infrastructure of KBR, and an award of 15,955 restricted stock units and options to purchase 18,930 shares of KBR common stock to Cedric W. Burgher, the Senior Vice President and Chief Financial Officer of KBR. Under the terms of the awards (i) 20% of the restricted stock units are scheduled to vest on each of the first five anniversaries of the grant date, (ii) the restricted stock units will convert into KBR common stock at a one-to-one ratio, (iii) the stock options have an exercise price of \$21.81 per share and are scheduled to expire on November 21, 2016, (iv) Mr. Stanski's stock options are scheduled to vest as follows: 7,615 options on November 21, 2007; 7,691 options on November 21, 2008; and 7,540 options on November 21, 2009; and (v) Mr. Burgher's stock options are scheduled to vest as follows: 6,310 options on November 21, 2007; 6,373 options on November 21, 2008; and 6,247 options on November 21, 2009.

ITEM 9.01. Financial Statements and Exhibits.

- (d) Exhibits.
 - 10.1 KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.23 to KBR, Inc.'s Registration Statement on Form S-1; Registration No. 333-133302).
 - 10.2 Restricted Stock Agreement, by and between KBR, Inc. and William P. Utt.
 - 10.3 Form of Restricted Stock Unit Agreement.
 - 10.4 Form of Nonstatutory Stock Option Agreement.

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: November 28, 2006

By: /s/ Michael A. Weberpal

Michael A. Weberpal

Vice President and Assistant Secretary

EXHIBIT INDEX

EXHIBIT

<u>NUMBER</u>	<u>EXHIBIT DESCRIPTION</u>
10.1	KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.23 to KBR, Inc.'s Registration Statement on Form S-1; Registration No. 333-133302).
10.2	Restricted Stock Agreement, by and between KBR, Inc. and William P. Utt.
10.3	Form of Restricted Stock Unit Agreement.
10.4	Form of Nonstatutory Stock Option Agreement.

RESTRICTED STOCK AGREEMENT

AGREEMENT by and between KBR, Inc., a Delaware corporation (the “Company”) and William P. Utt (“Employee”) made effective as of the date of the delivery of shares for closing of the initial public offering of the Company (the “Grant Date”).

1. Grant of Restricted Stock .

(a) Stock . Pursuant to the KBR, Inc. 2006 Stock and Incentive Plan (the “Plan”), Employee is hereby awarded 129,410 shares of the Company’s common stock (“Stock”), subject to the conditions of the Plan and this Agreement (the “Restricted Stock”).

(b) Plan Incorporated . Employee acknowledges receipt of a copy of the Plan, and agrees that this award of Restricted Stock shall be subject to all of the terms and conditions set forth in the Plan, including future amendments thereto, if any, pursuant to the terms thereof, which Plan is incorporated herein by reference as a part of this Agreement. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

2. Terms of Restricted Stock . Employee hereby accepts the Restricted Stock and agrees with respect thereto as follows:

(a) Forfeiture of Restricted Stock . In the event of termination of Employee’s employment with the Company or any employing Subsidiary of the Company for any reason other than (i) normal retirement on or after age sixty-five, (ii) death or (iii) disability (disability being defined as being physically or mentally incapable of performing either the Employee’s usual duties as an Employee or any other duties as an Employee that the Company reasonably makes available and such condition is likely to remain continuously and permanently, as determined by the Company or employing Subsidiary), or except as otherwise provided in the last two sentences of subparagraph (c) of this Paragraph 2, Employee shall, for no consideration, forfeit all Restricted Stock to the extent then subject to the Forfeiture Restrictions (as defined below). The obligation to forfeit and surrender Restricted Stock to the Company upon termination of employment and the prohibition against transfer in Paragraph 2(b) below are herein referred to as “Forfeiture Restrictions.”

(b) Assignment of Award . The Restricted Stock may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of to the extent then subject to the Forfeiture Restrictions.

(c) Lapse of Forfeiture Restrictions . The Forfeiture Restrictions shall lapse as to the Restricted Stock in accordance with the following schedule provided that Employee has been continuously employed by the Company or any of its Subsidiaries or by Halliburton Company or any of its subsidiaries from the date of this Agreement through the applicable lapse date.

Lapse Date	Percentage of Total Number of Restricted Stock
1st Anniversary of Grant Date	20%
2nd Anniversary of Grant Date	40%
3rd Anniversary of Grant Date	60%
4th Anniversary of Grant Date	80%
5th Anniversary of Grant Date	100%

Notwithstanding the foregoing, the Forfeiture Restrictions shall lapse as to all of the Restricted Stock on the earlier of (i) the occurrence of a Corporate Change (as such term is defined in the Plan), or (ii) the date Employee's employment with the Company is terminated by reason of death, disability (as determined above) or normal retirement on or after age sixty-five. In the event Employee's employment is terminated for any other reason, including retirement prior to age sixty-five with the approval of the Company or employing Subsidiary, the Committee which administers the Plan (the "Committee") or its delegate, as appropriate, may, in the Committee's or such delegate's sole discretion, approve the lapse of Forfeiture Restrictions as to any or all Restricted Stock still subject to such restrictions, such lapse to be effective on the date of such approval or Employee's termination date, if later. Notwithstanding anything in this Agreement to the contrary, if Employee becomes entitled to a payment pursuant to Section 3.3 of that certain Executive Employment Agreement with KBR Technical Services, Inc. dated as of March 15, 2006, as the same may be amended or any similar provision of any successor agreement thereto, then in conjunction with such payment the Company shall either (i) pay Employee a lump sum cash amount equal to the Fair Market Value of all shares of Restricted Stock that Employee forfeits under this Agreement on his termination of employment that results in payment pursuant to said Section 3.3 or (ii) cause the Forfeiture Restrictions with respect to all shares of Restricted Stock hereunder to lapse on such termination of employment, whichever the Company chooses in its sole discretion.

(d) Certificates. A certificate evidencing the Restricted Stock shall be issued by the Company in Employee's name, or at the option of the Company, in the name of a nominee of the Company, pursuant to which Employee shall have voting rights and shall be entitled to receive currently all dividends until the Restricted Stock are forfeited pursuant to the provisions of this Agreement. The certificate shall bear a legend evidencing the nature of the Restricted Stock, and the Company may cause the certificate to be delivered upon issuance to the Secretary of the Company or to such other depository as may be designated by the Company as a depository for safekeeping until the forfeiture occurs or the Forfeiture Restrictions lapse pursuant to the terms of the Plan and this Agreement. Upon request of the Committee or its delegate, Employee shall deliver to the Company a stock power, endorsed in blank, relating to the Restricted Stock then subject to the Forfeiture Restrictions. Upon the lapse of the Forfeiture Restrictions without forfeiture, the Company shall cause a new certificate or certificates to be issued without legend in the name of Employee for the shares upon which Forfeiture Restrictions lapsed. Notwithstanding any other provisions of this Agreement, the issuance or delivery of any shares of Stock (whether subject to restrictions or unrestricted) may be postponed for such period as may be required to comply with applicable requirements of any national securities exchange or any

requirements under any law or regulation applicable to the issuance or delivery of such shares. The Company shall not be obligated to issue or deliver any shares of Stock if the issuance or delivery thereof shall constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.

3. **Withholding of Tax**. The Committee may make such provisions as it may deem appropriate for the withholding of any taxes which it determines is required in connection with this Award and unless otherwise approved by the Committee, the Company shall reduce the number of shares of Stock that would have otherwise been delivered to Employee by a number of shares of Stock having a Fair Market Value equal to the amount required to be withheld.

4. **Status of Stock**. Employee agrees that the Restricted Stock will not be sold or otherwise disposed of in any manner which would constitute a violation of any applicable federal or state securities laws. Employee also agrees (i) that the certificates representing the Restricted Stock may bear such legend or legends as the Company deems appropriate in order to assure compliance with applicable securities laws, (ii) that the Company may refuse to register the transfer of the Restricted Stock on the stock transfer records of the Company if such proposed transfer would be in the opinion of counsel satisfactory to the Company constitute a violation of any applicable securities law and (iii) that the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Restricted Stock.

5. **Employment Relationship**. For purposes of this Agreement, Employee shall be considered to be in the employment of the Company as long as Employee remains an employee of (i) the Company, a Parent Corporation or Subsidiary of the Company, (ii) Halliburton Company or any subsidiary, or (iii) a corporation or a Parent Corporation or subsidiary of such corporation assuming or substituting a new award for this Award. Any question as to whether and when there has been a termination of such employment, and the cause of such termination, shall be determined by the Committee, or its delegate, as appropriate, and its determination shall be final.

6. **Committee's Powers**. No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Restricted Stock.

7. **No Section 83(b) Election**. Employee shall not make an election, under section 83(b) of the Code, to include an amount in income in respect of the award of Restricted Shares under this Agreement.

8. **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

9. **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas.

10. **Section 409A**. Notwithstanding anything in this Agreement to the contrary, if any provision in this Agreement would result in the imposition of an applicable tax under Section

409A of the Code and related regulations and United States Department of the Treasury pronouncements (“Section 409A”), that provision will be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Employee’s rights under this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized, and Employee has executed this Agreement, all as of the date first above written.

KBR, INC.

By: _____

/s/ William P. Utt
Employee

FORM OF RESTRICTED STOCK UNIT AGREEMENT

AGREEMENT by and between KBR, Inc., a Delaware corporation (the "Company") and _____ ("Employee") made effective as of _____ (the "Grant Date").

1. Grant of Restricted Stock Units .

(a) Units . Pursuant to the KBR, Inc. 2006 Stock and Incentive Plan (the "Plan") units evidencing the right to receive _____ shares of the Company's common stock ("Stock"), are awarded to Employee, subject to the conditions of the Plan and this Agreement (the "Restricted Stock Units").

(b) Plan Incorporated . Employee acknowledges receipt of a copy of the Plan, and agrees that this award of Restricted Stock Units shall be subject to all of the terms and conditions set forth in the Plan, including future amendments thereto, if any, pursuant to the terms thereof, which Plan is incorporated herein by reference as a part of this Agreement. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

2. Terms of Restricted Stock Units . Employee hereby accepts the Restricted Stock Units and agrees with respect thereto as follows:

(a) Forfeiture of Restricted Stock Units . In the event of termination of Employee's employment with the Company or any employing Subsidiary of the Company for any reason other than (i) normal retirement on or after age sixty-five, (ii) death or (iii) disability (disability being defined as being physically or mentally incapable of performing either the Employee's usual duties as an Employee or any other duties as an Employee that the Company reasonably makes available and such condition is likely to remain continuously and permanently, as determined by the Company or employing Subsidiary), or except as otherwise provided in the last two sentences of subparagraph (c) of this Paragraph 2, Employee shall, for no consideration, forfeit all Restricted Stock Units to the extent they are not fully vested.

(b) Assignment of Award . The Restricted Stock Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of.

(c) Vesting Schedule . The Restricted Stock Units shall vest in accordance with the following schedule provided that Employee has been continuously employed by the Company from the date of this Agreement through the applicable vesting date.

<u>Vesting Date</u>	<u>Vested Percentage of Total Number of Restricted Stock Units</u>
1st Anniversary of Grant Date	20%
2nd Anniversary of Grant Date	40%
3rd Anniversary of Grant Date	60%
4th Anniversary of Grant Date	80%
5th Anniversary of Grant Date	100%

Notwithstanding the foregoing, the Restricted Stock Units shall become fully vested on the earlier of (i) the occurrence of a Corporate Change (as such term is defined in the Plan), or (ii) the date Employee's employment with the Company is terminated by reason of death, disability (as determined above) or normal retirement on or after age sixty-five. In the event Employee's employment is terminated for any other reason, including retirement prior to age sixty-five with the approval of the Company or employing Subsidiary, the Committee which administers the Plan (the "Committee") or its delegate, as appropriate, may, in the Committee's or such delegate's sole discretion, approve the acceleration of the vesting of any or all Restricted Stock Units still subject to restrictions, such vesting acceleration to be effective on the date of such approval or Employee's termination date, if later.

(d) Shareholder Rights . Employee shall have no rights to dividends, dividend equivalents or any other rights of a shareholder with respect to shares of Stock subject to this Award unless and until such time as the Award has been settled by the transfer of shares of Stock to Employee.

(e) Settlement and Delivery of Shares . Payment of vested Restricted Stock Units shall be made as soon as administratively practicable after vesting, but in no event later than thirty days after the vesting date. Settlement will be made by payment in shares of Stock. Notwithstanding the foregoing, the Company shall not be obligated to deliver any shares of Stock if counsel to the Company determines that such sale or delivery would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Stock is listed or quoted. The Company shall in no event be obligated to take any affirmative action in order to cause the delivery of shares of Stock to comply with any such law, rule, regulation or agreement.

3. **Withholding of Tax** . The Committee may make such provisions as it may deem appropriate for the withholding of any taxes which it determines is required in connection with this Award. Unless the Committee provides otherwise, the Company shall reduce the number of shares of Stock that would have otherwise been delivered to Employee by a number of shares of Stock having a Fair Market Value equal to the amount required to be withheld.

4. **Employment Relationship** . For purposes of this Agreement, Employee shall be considered to be in the employment of the Company as long as Employee remains an employee of the Company, a Parent Corporation or Subsidiary of the Company, or a corporation or a Parent Corporation or a subsidiary of such corporation assuming or substituting a new award for this Award. Any question as to whether and when there has been a termination of such employment, and the cause of such termination, shall be determined by the Committee, or its delegate, as appropriate, and its determination shall be final.

5. **Committee's Powers**. No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Restricted Stock Units.

6. **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

7. **Compliance with Law**. Notwithstanding anything to the contrary herein, the Company shall not be obligated to issue any Stock in connection with a Restricted Stock Unit, at any time, if the offering or issuance of the Stock, or if acceptance of the Stock by an Employee, violates or is not in compliance with any laws, rules or regulations of the United States or any state or country.

8. **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas.

9. **Section 409A**. Notwithstanding anything in this Agreement to the contrary, if any provision in this Agreement would result in the imposition of an applicable tax under Section 409A of the Code and related regulations and United States Department of the Treasury pronouncements ("Section 409A"), that provision will be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect Employee's rights under this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized, and Employee has executed this Agreement, all as of the date first above written.

KBR, INC.

By: _____

Employee

FORM OF NONSTATUTORY STOCK OPTION AGREEMENT

AGREEMENT by and between KBR, Inc., a Delaware corporation (the “Company”) and _____ (“Employee”) made effective as of _____ (the “Grant Date”).

To carry out the purposes of the KBR, Inc. 2006 Stock and Incentive Plan (the “Plan”), by affording Employee the opportunity to purchase shares of common stock of the Company (“Stock”), and in consideration of the mutual agreements and other matters set forth herein and in the Plan, the Company and Employee hereby agree to the following terms set forth herein. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

1. Grant of Option. The Company hereby irrevocably grants to Employee the right and option (“Option”) to purchase an aggregate of _____ shares of Stock at the option price indicated below, on the terms and conditions set forth herein and in the Plan, which Plan is incorporated herein by reference as a part of this Agreement. This Option shall not be treated as an incentive stock option within the meaning of Section 422(b) of the Code.

2. Option Price. The purchase price of Stock to be paid by Employee pursuant to the exercise of this Option shall equal _____ (the “Exercise Price”).

3. Exercise of Option. Subject to the earlier expiration of this Option as herein provided, this Option may be exercised by providing notice of exercise in the manner specified by the Company from time to time. Exercise of this Option must occur during the regular trading hours in which the Stock is traded on the New York Stock Exchange or other principal exchange on which the Stock is then traded. Except as otherwise provided below, this Option shall not be exercisable for more than a percentage of the aggregate number of shares of Stock offered by this Option determined by the number of full years from the Grant Date to the date of such exercise, in accordance with the following schedule:

<u>Number of Full Years</u>	<u>Percentage of Stock That May Be Purchased</u>
Less than 1 year	0%
1 year	33 1/3%
2 years	67%
3 years	100%

This Option is not transferable otherwise than by will or the laws of descent and distribution or pursuant to a “qualified domestic relations order” as defined by the Code and may be exercised during Employee’s lifetime only by Employee, Employee’s guardian or legal representative or a transferee under a qualified domestic relations order. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or of such rights contrary to the provisions hereof or in the Plan, or upon the levy of any attachment or similar process upon this Option or such rights, this Option and such rights shall immediately become null and void.

This Option may be exercised only while Employee remains an employee of the Company, subject to the following exceptions:

(a) If Employee's employment with the Company terminates by reason of disability (disability being defined as being physically or mentally incapable of performing either the Employee's usual duties as an Employee or any other duties as an Employee that the Company reasonably makes available and such condition is likely to remain continuously and permanently, as determined by the Company or employing Subsidiary), this Option may be exercised in full by Employee (or Employee's estate or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of Employee) at any time during the period ending on the earlier of the Expiration Date (as defined below) or the third anniversary of the date of Employee's termination of employment. Notwithstanding the foregoing, if Employee's termination of employment by reason of disability occurs during the first six months following the Grant Date, this Option may be exercised in full at any time during the period ending on the earlier of the Expiration Date or the fourth anniversary of the date of Employee's termination of employment.

(b) If Employee dies while in the employ of the Company, Employee's estate, or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of Employee, may exercise this Option in full at any time during the period ending on the earlier of the Expiration Date or the third anniversary of the date of Employee's death. Notwithstanding the foregoing, if Employee dies during the first six months following the Grant Date, this Option may be exercised in full at any time during the period ending on the earlier of the Expiration Date or the fourth anniversary of the date of Employee's termination of employment.

(c) If Employee's employment with the Company terminates by reason of normal retirement at or after age 65, this Option may be exercised by Employee at any time during the period ending on the Expiration Date, but only as to the number of shares of Stock Employee was entitled to purchase on the date of such exercise in accordance with the schedule set forth above. In connection with the termination of Employee's employment with the Company by reason of early retirement, applicable management of the Company and/or business unit may recommend to the Committee or its delegate, as applicable, that this Option be retained. In such event, the Committee or its delegate, as the case may be, shall consider such recommendation and may, in the Committee's or such delegate's sole discretion, approve the retention of this Option following such early retirement, in which case the Option may be exercised by Employee at any time during the period ending on the Expiration Date, but only as to the number of shares of Stock Employee was entitled to purchase on the date of such exercise in accordance with the schedule set forth above. If, after retirement as set forth above, Employee should die, this Option may be exercised in full by Employee's estate (or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of the Employee) during the period ending on the earlier of the Expiration Date or the third anniversary of the date of Employee's death.

(d) If Employee's employment with the Company terminates for any reason other than those set forth in subparagraphs (a) through (c) above, this Option may be exercised by Employee at any time during the period of 30 days following such termination, or by Employee's estate (or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of the Employee) during a period of six months following Employee's death if Employee dies during such 30-day period, but in each case only as to the number of shares of Stock Employee was entitled to purchase hereunder upon exercise of this Option as of the date Employee's employment so terminates.

This Option shall not be exercisable in any event prior to the expiration of six months from the date of grant hereof or after the expiration of ten years from the date of grant hereof (the "Expiration Date") notwithstanding anything hereinabove contained. The purchase price of Stock as to which this Option is exercised shall be paid in full at the time of exercise in cash (in the form and manner prescribed by the Company). At Employee's request or the request of another person entitled to exercise this Option, and to the extent permitted by applicable law, the Committee in its discretion may selectively approve "cashless exercise" arrangements with a brokerage firm under which such brokerage firm, on behalf of Employee or such other person exercising the Option, shall pay to the Company or its designee the Exercise Price of the Option or of the portion being exercised, and the Company or its designee, pursuant to an irrevocable notice from Employee or such other person exercising the Option, shall promptly deliver the shares being purchased to such firm. No fraction of a share of Stock shall be issued by the Company upon exercise of an Option or accepted by the Company in payment of the purchase price thereof; rather, Employee shall provide a cash payment for such amount as is necessary to effect the issuance and acceptance of only whole shares of Stock. Unless and until a certificate or certificates representing such Stock shall have been issued by the Company to Employee, Employee (or the person permitted to exercise this Option in the event of Employee's death) shall not be or have any of the rights or privileges of a shareholder of the Company with respect to Stock acquirable upon an exercise of this Option.

4. Withholding of Tax. To the extent that the exercise of this Option or the disposition of shares of Stock acquired by exercise of this Option results in compensation income to Employee for federal or state income tax purposes, Employee shall deliver to the Company at the time of such exercise or disposition such amount of money or shares of Stock as the Company may require to meet its withholding obligation under applicable tax laws or regulations, and, if Employee fails to do so, the Company is authorized to withhold from any cash or Stock remuneration then or thereafter payable to Employee any tax required to be withheld by reason of such resulting compensation income. Upon an exercise of this Option, the Company is further authorized in its discretion to satisfy any such withholding requirement out of any cash or shares of Stock distributable to Employee upon such exercise.

5. Status of Stock. The Company shall not be obligated to issue any Stock pursuant to any Option at any time, when the offering of the Stock covered by such Option has not

been registered under the Securities Act of 1933, as amended (the “Act”) and such other country, federal or state laws, rules or regulations as the Company deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration. The Company intends to use its best efforts to ensure that no such delay will occur. In the event exemption from registration under the Act is available upon an exercise of this Option, Employee (or the person permitted to exercise this Option in the event of Employee’s death or incapacity), if requested by the Company to do so, will execute and deliver to the Company in writing an agreement containing such provisions as the Company may require to assure compliance with applicable securities laws.

Employee agrees that the shares of Stock which Employee may acquire by exercising this Option will not be sold or otherwise disposed of in any manner which would constitute a violation of any applicable securities laws, whether federal or state. Employee also agrees (i) that the certificates representing the shares of Stock purchased under this Option may bear such legend or legends as the Company deems appropriate in order to assure compliance with applicable securities laws, (ii) that the Company may refuse to register the transfer of the shares of Stock purchased under this Option on the stock transfer records of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable securities law and (iii) that the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Stock purchased under this Option.

6. Employment Relationship. For purposes of this Agreement, Employee shall be considered to be in the employment of the Company as long as Employee remains an employee of the Company, a Parent Corporation or Subsidiary of the Company, or a corporation or a Parent Corporation or a subsidiary of such corporation assuming or substituting a new option for this Option. Any question as to whether and when there has been a termination of such employment, and the cause of such termination, shall be determined by the Committee or its delegate, as appropriate, and such determination shall be final.

7. Binding Effect. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

8. Compliance with Law. Notwithstanding anything to the contrary herein, the Company shall not be obligated to issue any Stock pursuant to any Option, at any time, if the offering of the Stock covered by such Option, or the exercise of an Option by an Employee, violates or is not in compliance with any laws, rules or regulations of the United States or any state or country.

9. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officer thereunto duly authorized, and Employee has executed this Agreement, all as of the day and year first above written.

KBR, INC.

By: _____

EMPLOYEE
