

KBR, INC.  
Form 424B3  
March 27, 2007

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Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-141027

**PROSPECTUS OFFER TO EXCHANGE**

**HALLIBURTON COMPANY**

**Offer to Exchange Up to  
135,627,000 Shares of Common Stock of  
KBR, Inc.**

**Which are owned by Halliburton Company for  
Outstanding Shares of Common Stock of  
Halliburton Company**

***THE EXCHANGE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MARCH 29, 2007 UNLESS THE EXCHANGE OFFER IS EXTENDED OR TERMINATED.***

Halliburton Company is offering to exchange up to 135,627,000 shares of KBR, Inc. common stock in the aggregate for outstanding shares of Halliburton common stock that are validly tendered and not properly withdrawn.

For each \$1.00 of Halliburton common stock accepted in the exchange offer, you will receive approximately \$1.08 of KBR common stock, subject to a maximum limit of 1.5905 shares of KBR common stock for each share of Halliburton common stock (the maximum exchange ratio). The exchange offer does not provide for a minimum exchange ratio. **IF THE MAXIMUM EXCHANGE RATIO IS IN EFFECT, YOU WILL RECEIVE LESS THAN \$1.08 OF KBR COMMON STOCK FOR EACH \$1.00 OF HALLIBURTON COMMON STOCK THAT YOU VALIDLY TENDER AND DO NOT PROPERLY WITHDRAW, AND YOU COULD RECEIVE MUCH LESS.**

The per-share value of Halliburton common stock and the per-share value of KBR common stock to be used for purposes of calculating the exchange ratio will equal the arithmetic average of the daily volume-weighted average price (daily VWAP) for Halliburton common stock or KBR common stock, as applicable, on the New York Stock Exchange for the last three trading days of the currently anticipated exchange offer period (the valuation dates). The valuation dates will be March 27, 2007, March 28, 2007 and March 29, 2007, unless the exchange offer is extended. The valuation dates will not change, however, if the exchange offer is extended solely as a result of the automatic extension triggered by the maximum exchange ratio. Subject to any extension by Halliburton or the possible automatic extension of the exchange offer due to a market disruption event on any valuation date, Halliburton will announce the final exchange ratio, including whether the maximum exchange ratio is in effect, by 4:30 p.m., New York City time, on March 29, 2007 (the original expiration date) by press release and on [www.KBRexchange.com](http://www.KBRexchange.com).

Please read "The Exchange Offer" "Terms of the Exchange Offer" beginning on page 54. Halliburton common stock and KBR common stock are listed on the New York Stock Exchange under the symbols HAL and KBR, respectively. On March 22, 2007, the reported last sales prices of Halliburton common stock and KBR common stock on the New York Stock Exchange were \$30.75 and \$20.24 per share, respectively. The indicative calculated per-share values, based on the arithmetic average of the daily VWAPs of Halliburton common stock and KBR common stock on March 20,

2007, March 21, 2007 and March 22, 2007, were \$30.51970 and \$20.26073 per share, respectively. Accordingly, the indicative exchange ratio that would have been in effect following the official close of trading on the New York Stock Exchange on March 22, 2007 based on the indicative calculated per-share values of Halliburton common stock and KBR common stock as of March 22, 2007, would have been subject to the maximum exchange ratio and provided for 1.5905 shares of KBR common stock to be exchanged for every share of Halliburton common stock accepted in the exchange offer.

You should read carefully the terms and conditions of the exchange offer described in this Prospectus Offer to Exchange. None of Halliburton, KBR or any of their respective directors or officers or the dealer managers makes any recommendation as to whether you should tender your shares of Halliburton common stock. You must make your own decision after reading this Prospectus Offer to Exchange and the documents incorporated by reference herein and consulting with your advisors.

Halliburton's obligation to exchange shares of KBR common stock for shares of Halliburton common stock is subject to the conditions, including the minimum condition, described under The Exchange Offer Conditions to Completion of the Exchange Offer, beginning on page 70.

*Please read Risk Factors beginning on page 10 for a discussion of factors that you should consider in connection with the exchange offer.*

**Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be exchanged under this Prospectus Offer to Exchange or determined if this Prospectus Offer to Exchange is truthful or complete. Any representation to the contrary is a criminal offense.**

**The dealer managers for the exchange offer are:**

**Credit Suisse**

**Goldman, Sachs & Co.**

The date of this Prospectus Offer to Exchange is March 27, 2007.

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**This Prospectus Offer to Exchange incorporates by reference important business and financial information about Halliburton from documents filed with the U.S. Securities and Exchange Commission that have not been included herein or delivered herewith. This information is available without charge at the website that the SEC maintains at <http://www.sec.gov>, as well as from other sources. Please read Where You Can Find More Information About Halliburton and KBR. In addition, you may ask any questions about the exchange offer or request copies of the exchange offer documents and the other information incorporated by reference in this**

**Prospectus Offer to Exchange from Halliburton, without charge, upon written or oral request to the information agent, Georgeson Inc., located at 17 State Street, New York, New York 10004 at 1-866-313-3046 (toll-free in the United States), 1-212-805-7144 (elsewhere) or 1-212-440-9800 (banks and brokers). In order to receive timely delivery of those materials, you must make your requests no later than five business days before expiration of the exchange offer.**

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This Prospectus Offer to Exchange is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Halliburton common stock or KBR common stock in any jurisdiction in which the offer, sale or exchange is not permitted. The restrictions set out below apply to persons in the specified countries. There may be additional restrictions that apply in other countries. Non-U.S. stockholders should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries and, if they do participate, whether there are any restrictions or limitations on transactions in the KBR common stock that may apply in their home countries. Halliburton, KBR and the dealer managers cannot provide any assurance about whether such limitations may exist. Please read The Exchange Offer Legal and Other Limitations; Certain Matters Relating to Non-U.S. Jurisdictions for additional information about limitations on the exchange offer outside the United States.

### *Australia*

This Prospectus Offer to Exchange does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the Australian Corporations Act ) and has not been, and will not be, lodged with the Australian Securities and Investments Commission.

No offer of securities is being made in Australia, and the distribution or receipt of this document in Australia does not constitute an offer of securities capable of acceptance by any person in Australia, except in the limited circumstances described in this Prospectus Offer to Exchange relying on certain exemptions in section 708 of the Australian Corporations Act.

### *Canada*

The exchange offer is not being made directly or indirectly in, nor is the exchange offer capable of acceptance from, Canada or by use of the mails, or any means or instrumentality of Canada and cannot be accepted by any such use, means or instrumentality or otherwise from within Canada. Copies of this Prospectus Offer to Exchange and any related offering documents are being mailed to holders of Halliburton common stock with registered addresses in Canada for information purposes only.

### *European Economic Area*

In relation to each Member State of the European Economic Area (the EEA ) which has implemented the Prospectus Directive (each, a Relevant Member State ), no offer to the public of any shares of KBR common stock as contemplated by this document may be made in that Relevant Member State, except in the limited circumstances specified in this Prospectus Offer to Exchange, provided that no such offer of shares of KBR common stock shall result in a requirement for the publication by Halliburton or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

### *Hong Kong*

No offer or sale of securities has been or will be made in Hong Kong, by means of any document other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. There has not been issued in Hong Kong or elsewhere any advertisement, invitation or document relating to KBR's common stock which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to KBR's securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that

Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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*Japan*

The exchange offer is not being made directly or indirectly in, nor is the exchange offer capable of acceptance from, Japan. Copies of this Prospectus Offer to Exchange and any related offering documents are being mailed to holders of Halliburton common stock with registered addresses in Japan for information purposes only.

*Singapore*

This Prospectus Offer to Exchange or any other offering material relating to shares of KBR common stock has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the shares of common stock will be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore (the Securities and Futures Act ). Accordingly, this Prospectus Offer to Exchange and any other document or material relating to the offer or sale, or invitation for subscription or purchase, of the shares of KBR common stock may not be circulated or distributed, nor may the shares of KBR common stock be offered or sold, or be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act; (b) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the shares of common stock are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act; (2) where no consideration is given for the transfer; or (3) by operation of law.

*United Kingdom*

This Prospectus Offer to Exchange is only being distributed to and directed at (i) persons outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order ) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons, relevant persons ). Shares of KBR common stock are only available to, and any invitation, offer or agreement to subscribe or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.



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**QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFER**

The board of directors of Halliburton Company has authorized the disposition of its remaining interest in KBR, Inc. consisting of 135,627,000 shares of KBR common stock, which represented approximately 81% of the outstanding common stock of KBR as of March 1, 2007. The following are answers to common questions about the separation of KBR from Halliburton and the exchange offer.

***Who may participate in the exchange offer and will it be extended outside the United States?***

Any U.S. person holding Halliburton common stock during the exchange offer period, which will be at least 20 business days, may participate in the exchange offer, including directors, officers, employees and affiliates of Halliburton, KBR and their respective subsidiaries. However, all of the executive officers and directors of Halliburton and KBR are subject to blackout period restrictions that will prevent them from participating in the exchange offer.

If you are a participant in the Halliburton Retirement and Savings Plan, the Halliburton Savings Plan, the Kellogg Brown & Root, Inc. Retirement and Savings Plan, or the Brown & Root, Inc. Employees Retirement and Savings Plan and have amounts invested in the Halliburton Stock Fund under the applicable plan, no action is required by you with respect to such invested amounts. The decision whether to tender shares of Halliburton common stock held in the Halliburton Stock Fund under any of those plans will be made by an independent fiduciary appointed under those plans.

If you have purchased Halliburton common stock under the Halliburton Employee Stock Purchase Plan or hold shares of Halliburton restricted stock that vested after July 23, 2006, Computershare holds those shares in a custodial account on your behalf, unless you have previously transferred those shares to a brokerage account or requested a stock certificate for those shares. If you have purchased Halliburton common stock under the Halliburton Company UK Employee Shares Purchase Plan, HBOS Employee Equity Solutions ( HBOS ) holds those shares in a custodial account on your behalf, unless you have previously transferred those shares to a brokerage account or requested a stock certificate for those shares. You make the decision as to whether you wish to tender any of the shares you hold in these custodial accounts in the exchange offer; no fiduciary will make that decision on your behalf. The exchange agent will furnish you materials describing what action you need to take if you wish to tender any of the shares held in the custodial account maintained by Computershare or HBOS on your behalf.

Although Halliburton will mail this Prospectus Offer to Exchange to its stockholders to the extent required by U.S. law, including stockholders located outside the United States, this Prospectus Offer to Exchange is not an offer to sell or exchange and it is not a solicitation of an offer to buy or exchange any shares of Halliburton common stock or KBR

common stock in any jurisdiction in which such offer, sale or exchange is not permitted.

Countries outside the United States generally have their own legal requirements that govern securities offerings made to persons resident in those countries and often impose stringent requirements about the form and content of offers made to the general public.

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Halliburton has not taken any action under those non-U.S. regulations to facilitate a public offer to exchange the KBR common stock outside the United States. Therefore, the ability of any non-U.S. person to tender Halliburton common stock in the exchange offer will depend on whether there is an exemption available under the laws of such person's home country that would permit the person to participate in the exchange offer without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise. For example, some countries exempt transactions from the rules governing public offerings if they involve persons who meet certain eligibility requirements relating to their status as sophisticated or professional investors.

All tendering holders must make certain representations in the letter of transmittal, including (in the case of non-U.S. holders) as to the availability of an exemption under their home country laws that would allow them to participate in the exchange offer without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise. Halliburton will rely on those representations and, unless the exchange offer is terminated, plans to accept shares tendered by persons who properly complete the letter of transmittal and provide any other required documentation on a timely basis and as otherwise described herein.

Non-U.S. stockholders should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries and, if they do participate, whether there are any restrictions or limitations on transactions in the KBR common stock that may apply in their home countries. Halliburton, KBR and the dealer managers cannot provide any assurance about whether such limitations may exist. Please read *The Exchange Offer – Legal and Other Limitations; Certain Matters Relating to Non-U.S. Jurisdictions* for additional information about limitations on the exchange offer outside the United States.

***How do I participate in the exchange offer?***

The procedures you must follow to participate in the exchange offer will depend on whether your shares of Halliburton common stock are held (i) in certificated form, (ii) in uncertificated form registered directly in your name in the Halliburton share register, referred to as direct registration shares, (iii) through a broker, dealer, commercial bank, trust company or similar institution, or (iv) through a custodial account maintained by Computershare or HBOS. For specific instructions about how to participate, please read *The Exchange Offer – Procedures for Tendering*.

***How many shares of KBR common stock will I receive for my shares of Halliburton common stock accepted in the exchange offer?***

The exchange offer is designed to permit you to exchange your shares of Halliburton common stock for shares of KBR common stock at a 7.5% discount to the per-share value of KBR common stock (which implies an 8.11% premium to the per-share value of Halliburton common stock) on the last three trading days of the currently anticipated exchange offer

period (the valuation dates, and this three day period, the valuation period ). Stated another way, and subject to the limitations described below, for each \$1.00 of your Halliburton common stock accepted in the exchange offer, you will receive approximately \$1.08 of KBR common stock. The

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number of shares of KBR common stock that will be received in exchange for each share of Halliburton common stock that is tendered and accepted in the exchange offer is referred to in this Prospectus-Offer to Exchange as the exchange ratio. The per-share value of Halliburton common stock and the per-share value of KBR common stock to be used for purposes of calculating the exchange ratio will equal the arithmetic average of the daily volume-weighted average price ( daily VWAP ) for Halliburton common stock and KBR common stock, as applicable, on the New York Stock Exchange for each of the valuation dates which are expected to be March 27, 2007, March 28, 2007 and March 29, 2007. Stated another way, the final calculated per-share value for each stock will be calculated by adding the daily VWAP of the applicable stock for each of the valuation dates and then calculating the average by dividing the resulting total by three. Please note, however, that:

The number of shares you can receive is subject to a maximum limit of 1.5905 shares of KBR common stock for each share of Halliburton common stock accepted in the exchange offer, which is referred to as the maximum exchange ratio. The maximum exchange ratio will come into effect if there is a decrease of sufficient magnitude in the market value of KBR common stock relative to the market value of Halliburton common stock. Please read What will happen if the maximum exchange ratio is in effect? below.

The exchange offer does not provide for a minimum exchange ratio.

Because the exchange offer may be subject to proration, the number of your shares Halliburton accepts in the exchange offer may be less than the number of shares you tender.

Indicative exchange ratios (calculated in the manner described in this Prospectus Offer to Exchange) are available at [www.KBRexchange.com](http://www.KBRexchange.com) and from the information agent.

For purposes of illustration, the table below indicates the number of shares of KBR common stock that you would receive per share of Halliburton common stock, calculated using the methodology described under The Exchange Offer Terms of the Exchange Offer, and taking into account the maximum exchange ratio, assuming a range of the daily VWAP of Halliburton common stock and KBR common stock. The first line of the table below shows the indicative calculated per-share values of Halliburton common stock and KBR common stock and the indicative exchange ratio that would have been in effect following the official close of trading on the New York Stock Exchange on March 1, 2007, based on the daily VWAPs of Halliburton common stock and KBR common stock on February 27, 2007, February 28, 2007 and March 1, 2007. The table also shows the effects of a 10% increase or decrease in either or both the indicative calculated per-share values of Halliburton common stock and KBR common stock based on changes relative to the indicative calculated

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per-share values on March 1, 2007.

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<b>Halliburton Common Stock</b>	<b>KBR Common Stock</b>	<b>Indicative Calculated per- Share Value of Halliburton Common Stock</b>	<b>Indicative Calculated per- Share Value of KBR Common Stock</b>	<b>Shares of KBR Common Stock per Share of Halliburton Common Stock Tendered</b>	<b>Calculated Value Ratio(1)</b>
At March 1, 2007	At March 1, 2007	31.16040	22.83983	1.4749	1.08
Down 10%	Up 10%	28.04436	25.12381	1.2068	1.08
Down 10%	Unchanged	28.04436	22.83983	1.3274	1.08
Down 10%	Down 10%	28.04436	20.55585	1.4749	1.08
Unchanged	Up 10%	31.16040	25.12381	1.3408	1.08
Unchanged	Unchanged	31.16040	22.83983	1.4749	1.08
Unchanged	Down 10%	31.16040	20.55585	1.5905(2)(a)	1.05
Up 10%	Up 10%	34.27644	25.12381	1.4749	1.08
Up 10%	Unchanged	34.27644	22.83983	1.5905(2)(b)	1.06
Up 10%	Down 10%	34.27644	20.55585	1.5905(2)(c)	0.95

- (1) The Calculated Value Ratio equals (i) the indicative calculated per-share value of KBR common stock multiplied by the indicative exchange ratio, divided by (ii) the indicative calculated per-share value of Halliburton common stock.
- (2) In each of these scenarios, the maximum exchange ratio is in effect. Absent the maximum exchange ratio, the exchange ratio of shares of KBR common stock per Halliburton share tendered would have been 1.6388 in the case of (2)(a), 1.6224 in the case of (2)(b) and 1.8027 in the case of (2)(c). In each of these scenarios, Halliburton would announce by 4:30 p.m., New York City time, on the original expiration date that the maximum exchange ratio is in effect, and the final exchange ratio would be fixed at the maximum exchange ratio and the exchange offer would be automatically extended until 12:00 midnight, New York City time, of the second following trading day.

***Why is there a maximum exchange ratio?***

The number of shares you can receive is subject to a maximum exchange ratio of 1.5905 shares of KBR common stock for each share of Halliburton common stock accepted in the exchange offer. The maximum exchange ratio was calculated based on a 15% premium to the market value of Halliburton common stock using the closing prices of Halliburton common stock and KBR common stock on March 1, 2007 (the day before the commencement date of the exchange offer). Halliburton set this limit to ensure that an unusual or unexpected significant decrease in the market value of KBR common stock relative to the market value of Halliburton common stock during the exchange offer period, would not result in an unduly high number of shares of KBR common stock being exchanged

per share of Halliburton common stock accepted in the exchange offer.

***What will happen if the maximum exchange ratio is in effect?***

Halliburton will announce whether the maximum exchange ratio is in effect through [www.KBRexchange.com](http://www.KBRexchange.com) and by press release, by 4:30 p.m., New York City time, on the original expiration date. If the maximum exchange ratio is in effect at that time, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day to permit stockholders to tender or withdraw their shares of Halliburton common stock during those days. Any changes in the prices of Halliburton common stock or KBR common stock on those additional days of the exchange offer will not, however, affect the final

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exchange ratio. In other words, the number of shares of KBR common stock Halliburton stockholders will receive will not change as a result of changes in the prices of KBR common stock or Halliburton common stock on those additional days that would otherwise have affected the exchange ratio had those price changes occurred during the valuation dates.

**If the maximum exchange ratio is in effect, you will receive less than \$1.08 of KBR common stock for each \$1.00 of Halliburton common stock accepted in the exchange offer (based on the calculated per-share values of Halliburton common stock and KBR common stock for the valuation dates), and you could receive much less. Stated another way, if the maximum exchange ratio is not in effect, the formula for calculating the exchange ratio contemplates that, for each share of Halliburton common stock accepted in the exchange offer, you will receive a number of shares of KBR common stock calculated at a 7.5% discount to the per-share value of KBR common stock. However, if the maximum exchange ratio is in effect and you still decide to tender your shares of Halliburton common stock, you will exchange your shares of Halliburton common stock for shares of KBR common stock at a discount of less than 7.5% to the per-share value of KBR common stock and, depending upon the magnitude of the decrease in market value of KBR common stock relative to the market value of Halliburton common stock during the exchange offer period, you may be exchanging your shares of Halliburton common stock for shares of KBR common stock without any discount, or even at a premium, to the per-share value of KBR common stock (i.e., if the decrease in market value of KBR common stock relative to the market value of Halliburton common stock is substantial enough, you could receive less than \$1.00 of KBR common stock for every \$1.00 of Halliburton common stock accepted in the exchange offer).**

*How are the calculated per-share values of Halliburton common stock and KBR common stock determined for purposes of calculating the number of shares of KBR common stock to be received in the exchange offer?*

The calculated per-share values of Halliburton common stock and KBR common stock to be used for purposes of calculating the exchange ratio will equal the arithmetic average of the daily VWAP for Halliburton common stock or KBR common stock, as applicable, on the New York Stock Exchange for the valuation dates. Stated another way, the calculated per-share value for each stock will be calculated by adding the daily VWAP of the applicable stock for each of the valuation dates and then calculating the average by dividing the resulting total by three. Halliburton will determine the calculated per-share-values of Halliburton common stock and KBR common stock, and such determination will be final.

The valuation dates will be March 27, 2007, March 28, 2007 and March 29, 2007, unless the exchange offer is extended. The valuation dates will not change, however, if the exchange offer is extended solely as a result of the automatic extension triggered by the maximum exchange ratio as described herein. If the maximum exchange ratio is in effect at that time, the final exchange ratio will be fixed at the maximum exchange ratio rather than basing the



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exchange ratio on the calculated per-share values of the two stocks based on the daily VWAP of each stock. Please read The Exchange Offer Automatic Extension Maximum Exchange Ratio.

***What is the daily VWAP?***

The daily VWAP for Halliburton common stock or KBR common stock, as the case may be, will be the volume-weighted average price per share of that stock on the New York Stock Exchange during the period beginning at 9:30 a.m., New York City time (or such other time as is the official open of trading on the New York Stock Exchange), and ending at 4:00 p.m., New York City time (or such other time as is the official close of trading on the New York Stock Exchange), as calculated by Xignite, Inc., except that such data will only take into account any adjustments made to reported trades included by 4:10 p.m., New York City time. The daily VWAP calculated by Xignite, Inc. may be different from volume-weighted average prices calculated by other sources or investors or other security holders own calculations of volume-weighted average prices.

***Where can I find the daily VWAP of Halliburton common stock and KBR common stock and indicative exchange ratios during the exchange offer period?***

Halliburton will maintain a web page at [www.KBRexchange.com](http://www.KBRexchange.com) that will provide the daily VWAP of both Halliburton common stock and KBR common stock, together with indicative exchange ratios, during the exchange offer. From the third to the seventeenth trading day of the exchange offer, indicative exchange ratios will be available at [www.KBRexchange.com](http://www.KBRexchange.com) by 4:30 p.m., New York City time, on each day calculated as though that day were the expiration date of the exchange offer. For example, by 4:30 p.m., New York City time, on March 6, 2007, an indicative exchange ratio of 1.4921 was shown based on the average of the daily VWAP of Halliburton common stock and KBR common stock on March 2, 2007, March 5, 2007, and March 6, 2007. The indicative exchange ratio will also reflect whether the maximum exchange ratio would have been in effect had such day been the original expiration date. You may also contact the information agent at its toll-free number provided on the back cover of this Prospectus Offer to Exchange to obtain these indicative exchange ratios.

On each of the valuation dates (when the per-share values of Halliburton common stock and KBR common stock are calculated for the purposes of determining the final exchange ratio for the exchange offer), the web page will provide indicative exchange ratios based on calculated per-share values of Halliburton common stock and KBR common stock which will equal, with respect to each stock, (1) on the first valuation date, the actual intra-day VWAP during the elapsed portion of that day; (2) on the second valuation date, the VWAP for the first valuation date averaged with the actual intra-day VWAP during the elapsed portion of the second valuation date; and (3) on the third valuation date, the VWAP for the first and second valuation dates averaged with the actual intra-day VWAP during the elapsed portion of the third valuation date. During this period, the indicative exchange ratios and calculated per-share values will be updated on the website at 10:30 a.m., 1:30 p.m. and 4:30 p.m., New York City

time, with the final

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exchange ratio available by 4:30 p.m., New York City time, on the third valuation date. The data used to derive the intra-day VWAP during the valuation period will reflect a 20-minute reporting delay.

In addition, for purposes of illustration, we have provided a table that indicates the number of shares of KBR common stock that you would receive per share of Halliburton common stock, calculated using the methodology described above and taking into account the maximum exchange ratio, assuming a range of the daily VWAP of Halliburton common stock and KBR common stock. Please read The Exchange Offer Terms of the Exchange Offer.

***How and when will I know the final exchange ratio?***

Unless Halliburton extends the exchange offer or an automatic extension of the exchange offer period occurs as described under The Exchange Offer Automatic Extension Market Disruption Event, the final exchange ratio representing the number of shares of KBR common stock that you will receive for each share of Halliburton common stock accepted in the exchange offer will be available at [www.KBRexchange.com](http://www.KBRexchange.com) by 4:30 p.m., New York City time, on the expiration date of the exchange offer and separately announced by press release. In addition, as described above, indicative exchange ratios are available at [www.KBRexchange.com](http://www.KBRexchange.com). You may also contact the information agent to obtain these indicative exchange ratios and the final exchange ratio at its toll-free number provided on the back cover of this Prospectus Offer to Exchange.

Halliburton will announce whether the maximum exchange ratio is in effect through [www.KBRexchange.com](http://www.KBRexchange.com) and by press release, by 4:30 p.m., New York City time, on the original expiration date. If the maximum exchange ratio is in effect at that time, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day to permit stockholders to tender or withdraw their shares of Halliburton common stock during those days.

***What if Halliburton common stock or KBR common stock does not trade on the New York Stock Exchange on a valuation date?***

If a market disruption event occurs with respect to Halliburton common stock or KBR common stock on any of the valuation dates, the exchange offer period will be automatically extended and the calculated per-share values of Halliburton common stock and KBR common stock will be determined on the immediately succeeding trading day or days, as the case may be, on which no market disruption event occurs with respect to both Halliburton common stock and KBR common stock. If, however, a market disruption event occurs as specified above and continues for a period of at least three consecutive trading days, Halliburton may terminate the exchange offer if, in its judgment, the continuing market disruption event has impaired the benefits of the exchange offer. For specific information as to what would constitute a market disruption event, please read The Exchange Offer Automatic Extension Market Disruption Event.



**Table of Contents*****How do I tender shares of Halliburton common stock after the final exchange ratio has been determined?***

If you are a registered stockholder of Halliburton common stock (which will include persons holding certificated shares or direct registration shares), then it is unlikely that you will be able to deliver an original executed letter of transmittal (and, in the case of certificated shares, your share certificates) to the exchange agent after 4:30 p.m. but prior to the expiration of the exchange offer at 12:00 midnight. Accordingly, in such a case, if you wish to tender your shares after the final exchange ratio has been determined, you will generally need to do so by means of delivering a notice of guaranteed delivery and complying with the guaranteed delivery procedures described under *The Exchange Offer Procedures for Tendering Guaranteed Delivery Procedures*. You must, in all cases, obtain a Medallion guarantee from an eligible institution in the form set forth in the notice of guaranteed delivery in connection with the delivery of your shares in this manner. A Medallion guarantee can generally be obtained from an eligible institution only before the institution providing that guarantee has closed for the day. If you hold Halliburton common stock through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution must tender your shares on your behalf. DTC is expected to remain open until 5:00 p.m., New York City time, and institutions may be able to process tenders through DTC during that time (although we cannot assure you that will be the case). Once DTC has closed, participants in DTC whose name appears on a DTC security position listing as the owner of shares of Halliburton common stock, will still be able to tender shares by delivering a notice of guaranteed delivery to the exchange agent via facsimile. If you hold Halliburton common stock through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution must submit any notice of guaranteed delivery on your behalf. It will generally not be possible to direct such an institution to submit a notice of guaranteed delivery once that institution has closed for the day. In addition, any such institution, if it is not an eligible institution, will need to obtain a Medallion guarantee from an eligible institution in the form set forth in the notice of guaranteed delivery in connection with the delivery of those shares.

***Will I be able to withdraw the shares of Halliburton common stock I tender after the final exchange ratio has been determined?***

Yes. The final exchange ratio used to determine the number of shares of KBR common stock that you will receive for each share of Halliburton common stock accepted in the exchange offer will be announced by 4:30 p.m., New York City time, on the original expiration date, which is expected to be March 29, 2007. The expiration date may be extended (automatically or otherwise) or the exchange offer may be terminated. You have a right to withdraw shares of Halliburton common stock you have tendered at any time before 12:00 midnight, New York City time, on the expiration date. Please read *The Exchange Offer Withdrawal Rights*.

In order to withdraw your shares, you (or, if you hold your shares through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution on your behalf) must provide a written notice of withdrawal or facsimile transmission notice of withdrawal to the exchange

agent before 12:00 midnight, New York City time, on the expiration date.  
The information that must



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be included in that notice is specified under The Exchange Offer Withdrawal Rights.

**If you hold your shares through a broker, dealer, commercial bank, trust company, custodian or similar institution, you should consult that institution on the procedures you must comply with and the time by which such procedures must be completed in order for that institution to provide a written notice of withdrawal or facsimile notice of withdrawal to the exchange agent on your behalf before 12:00 midnight, New York City time, on the expiration date. If you hold your shares through such an institution, that institution must deliver the notice of withdrawal with respect to any shares you wish to withdraw. In such a case, as a beneficial owner and not a registered stockholder, you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.**

In addition, if the maximum exchange ratio is in effect at the expiration of the currently anticipated exchange offer period, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day to permit stockholders to tender or withdraw their shares of Halliburton common stock during those days, either directly or by acting through a broker, dealer, commercial bank, trust company, custodian or similar institution on their behalf.

***Are there circumstances under which I would receive fewer shares of KBR common stock than I would have received if the exchange ratio were determined using the closing prices of the two stocks on the expiration date of the exchange offer?***

Yes. For example, if the trading price of Halliburton common stock were to increase during the valuation period, the calculated per-share value of Halliburton common stock to be used for purposes of calculating the exchange ratio would likely be lower than the closing price of Halliburton common stock on the expiration date of the exchange offer. As a result, you may receive less KBR common stock for each \$1.00 of Halliburton common stock than you would have if the per-share value were calculated on the basis of the closing price of Halliburton common stock on the expiration date. Similarly, if the trading price of KBR common stock were to decrease during the valuation period, the calculated per-share value of KBR common stock to be used for purposes of calculating the exchange ratio would likely be higher than the closing price of KBR common stock on the expiration date of the exchange offer. This could also result in your receiving fewer shares of KBR common stock for each \$1.00 of Halliburton common stock than you would otherwise receive if the per-share value were calculated on the basis of the closing price of KBR common stock on the expiration date.

In addition, if the maximum exchange ratio is in effect at the expiration of the currently anticipated exchange offer period and the exchange offer is automatically extended until 12:00 midnight, New York City time, of the second following trading day, then the number of shares you will receive in exchange for each share of Halliburton common stock tendered will be fixed at the maximum exchange ratio and will not relate to the closing

prices on the expiration date of the exchange offer.

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***Will I receive any fractional shares of KBR common stock in the exchange offer?***

No. Fractional shares of KBR common stock will not be distributed in the exchange offer. Instead, you will receive cash in lieu of a fractional share. The exchange agent, acting as agent for the Halliburton stockholders otherwise entitled to receive a fractional share of KBR common stock, will aggregate all fractional shares that would otherwise have been required to be distributed and cause them to be sold in the open market for the accounts of those stockholders. You will receive the proceeds, if any, less any brokerage commissions or other fees, from the sale of these shares in accordance with your fractional interest in the aggregate number of shares sold.

***Will all the shares of Halliburton common stock that I tender be accepted in the exchange offer?***

Not necessarily. Halliburton holds 135,627,000 shares of KBR common stock. Depending on the number of shares of Halliburton common stock validly tendered in the exchange offer and not properly withdrawn, and the calculated per-share values of Halliburton common stock and KBR common stock determined as described above, Halliburton may have to limit the number of shares of Halliburton common stock that it accepts in the exchange offer through a proration process. Any proration of the number of shares accepted in the exchange offer will be determined on the basis of the proration mechanics described under The Exchange Offer Proration; Odd-Lots.

***Are there any conditions to Halliburton's obligation to complete the exchange offer?***

Yes. Halliburton is not required to complete the exchange offer unless the conditions described beginning on page 70 are satisfied or waived on or before the expiration of the exchange offer. For example, Halliburton is not required to complete the exchange offer unless at least 40,688,100 shares of KBR common stock would be distributed in exchange for shares of Halliburton common stock that are validly tendered in the exchange offer (the minimum condition). In addition, Halliburton is not required to complete the exchange offer if Halliburton reasonably expects that the completion of the exchange offer would result in any person or group of persons owning shares of KBR common stock in an amount that would or would be likely to cause (i) the exchange offer and/or, if applicable, any subsequent spin-off to be taxable to Halliburton or its stockholders under U.S. federal income tax laws, (ii) an event of default to occur under KBR's revolving credit facility, or (iii) a notification filing under the Hart-Scott-Rodino Act. Halliburton may waive any or all of the conditions to the exchange offer, including the conditions described above, subject to limited exceptions. KBR has no right to waive any of the conditions to the exchange offer.

***How many shares of Halliburton common stock will Halliburton acquire if the exchange offer is completed?***

The number of shares of Halliburton common stock that will be accepted if the exchange offer is completed will depend on the final exchange ratio and the number of shares of Halliburton common stock tendered. Halliburton holds 135,627,000 shares of KBR common stock. Accordingly, the largest possible number of shares of Halliburton common stock that will be accepted equals 135,627,000 divided by the final exchange ratio. For example, assuming that the final exchange ratio

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is 1.5905 (the maximum number of shares of KBR common stock that could be exchanged)

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for one share of Halliburton common stock), then Halliburton would accept up to 85,273,184 shares of Halliburton common stock.

***What happens if the minimum condition is satisfied, but not enough shares of Halliburton common stock are tendered to allow Halliburton to exchange all of the shares of KBR common stock it owns?***

In that case, Halliburton will distribute to its stockholders by means of a special dividend, on a pro rata basis, all of its remaining shares of KBR common stock promptly following the completion of the exchange offer. We refer to this distribution as the spin-off. The spin-off would be a special dividend distribution with respect to Halliburton common stock, and the record date for holders to receive shares in any spin-off would be set promptly following the expiration of the exchange offer. Fractional shares of KBR common stock would not be distributed in the spin-off. The exchange agent, acting in its ongoing capacity as transfer agent for Halliburton's stockholders otherwise entitled to receive a fractional share of KBR common stock in the spin-off, will aggregate all fractional shares that would have otherwise been required to be distributed and cause them to be sold in the open market for the accounts of those stockholders. Any proceeds that the exchange agent realizes in the spin-off from the sale of the fractional shares will be distributed, less any brokerage commissions or other fees, to each stockholder entitled thereto in accordance with the stockholder's fractional interest in the aggregate number of shares sold. Please read [Spin-Off Distribution of KBR Common Stock](#).

***What happens if the exchange offer is oversubscribed and Halliburton is unable to fulfill all tenders of Halliburton common stock at the final exchange ratio?***

In that case, all shares of Halliburton common stock that are validly tendered will generally be accepted for exchange on a pro rata basis in proportion to the number of shares tendered. We refer to this as proration. Stockholders who own odd-lots (less than 100 shares of Halliburton common stock) and who validly tender all their shares will not be subject to proration if they so request. For instance, if you own 50 shares of Halliburton common stock and tender all 50 shares, your odd-lot will not be subject to proration if you so request. If, however, the exchange offer is oversubscribed and you hold less than 100 shares of Halliburton common stock, but do not tender all of your shares, you will be subject to proration to the same extent as holders of more than 100 shares (and holders of odd-lots that do not request preferential treatment). Holders who hold odd-lots through custodial accounts with Computershare or HBOS, and holders of 100 or more shares of Halliburton common stock are not eligible for this preference and will be subject to proration.

Proration for each tendering stockholder will be based on the number of shares of Halliburton common stock tendered by that stockholder in the exchange offer, and not on that stockholder's aggregate ownership of Halliburton common stock. Any shares of Halliburton common stock not accepted for exchange as a result of proration will be credited to the tendering holder's account in book-entry form promptly following the expiration or termination of the exchange offer. Halliburton will announce its preliminary determination of the extent to which tenders will be prorated by press release by 9:00 a.m., New York City time, on the business day following the expiration of the exchange offer. We refer to this



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determination as the preliminary proration factor. Upon determining the number of shares of Halliburton common stock validly tendered for exchange (including shares tendered under the guaranteed delivery procedures), Halliburton will announce its final determination of the extent to which tenders will be prorated by press release promptly after this determination is made. We refer to this determination as the final proration factor.

***How long will the exchange offer be open?***

The period during which you are permitted to tender your shares, or withdraw your previously tendered shares, of Halliburton common stock in the exchange offer will expire at 12:00 midnight, New York City time, on the original expiration date, March 29, 2007, unless the exchange offer is extended (automatically or otherwise) or terminated. In addition, if the maximum exchange ratio is in effect at the expiration of the currently anticipated exchange offer period, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day. Halliburton may terminate the exchange offer in the circumstances described in The Exchange Offer Extension; Termination; Amendment.

***Under what circumstances can the exchange offer be extended by Halliburton?***

Halliburton can extend the exchange offer at any time, in its sole discretion, and regardless of whether any condition to the exchange offer has been satisfied or waived. If Halliburton extends the exchange offer, it must publicly announce the extension by press release at any time prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

***How do I decide whether to participate in the exchange offer?***

Whether you should participate in the exchange offer depends on many factors. You should examine carefully your specific financial position, plans and needs before you decide whether to participate, as well as the relative risks associated with an investment in Halliburton and KBR.

In addition, you should consider all of the factors described in Risk Factors. None of Halliburton, KBR or any of their respective directors or officers or the dealer managers makes any recommendation as to whether you should tender your shares of Halliburton common stock. You must make your own decision after carefully reading this document and consulting with your advisors in light of your own particular circumstances. You are strongly encouraged to read this document, including the information incorporated by reference, very carefully.

***Can I tender only a part of my Halliburton common stock in the exchange offer?***

Yes. You may tender all, some or none of your Halliburton common stock.

***What do I do if I want to retain all of my Halliburton common stock?***

If you want to retain all of your Halliburton common stock, you do not need to take any action in connection with the exchange offer.

***Can I change my mind after I tender my Halliburton common stock?*** Yes. You may withdraw shares tendered at any time before the exchange offer expires. Please read The Exchange Offer Withdrawal Rights. If you decide to re-tender your Halliburton common



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stock before the expiration of the exchange offer, you may do so by following the tender procedures again.

***How soon will I receive delivery of my KBR common stock once I have tendered my Halliburton common stock?***

The exchange agent will cause shares of KBR common stock to be credited to you in book-entry form promptly after acceptance of shares of Halliburton common stock in the exchange offer and determination of the final proration factor, if any. Please read the *The Exchange Offer Delivery of KBR Common Stock; Book-Entry Accounts*.

***Will I be taxed on the shares of KBR common stock that I receive in the exchange offer?***

Halliburton has received an opinion of counsel confirming the tax-free status, for U.S. federal income tax purposes, of the exchange offer and any subsequent spin-off to Halliburton's stockholders (except with respect to any cash received in lieu of a fractional share). It is a condition to the consummation of the exchange offer and any subsequent spin-off that such opinion not be withdrawn. The opinion of counsel does not address any state, local or foreign tax consequences of the exchange offer and any subsequent spin-off that may apply to Halliburton and its stockholders. Halliburton has also requested a ruling from the Internal Revenue Service in connection with the exchange offer. However, the consummation of the exchange offer is not conditioned upon receipt of a ruling from the Internal Revenue Service. You should consult your own tax advisor regarding the particular tax consequences to you of the exchange offer and any subsequent spin-off. Please read *Risk Factors - Risks Relating to the Exchange Offer and Any Subsequent Spin-Off - The Internal Revenue Service may treat the exchange offer as taxable to exchanging stockholders or to Halliburton* and *U.S. Federal Income Tax Consequences*.

***Will I receive Halliburton's 2007 regular first quarter cash dividend with respect to shares of Halliburton common stock that I tender in the exchange offer?***

Yes, if you were a stockholder of record of the shares at the close of business on March 1, 2007, the record date for the dividend.

***Are there any appraisal rights for holders of Halliburton or KBR common stock?***

There are no appraisal rights available to Halliburton stockholders or KBR stockholders in connection with the exchange offer.

***What is the accounting treatment of the exchange offer?***

The shares of Halliburton common stock acquired by Halliburton in the exchange offer will be recorded as an acquisition of treasury stock at a cost equal to the market value of the Halliburton shares accepted in the exchange offer at its expiration. Any difference between the net book value of Halliburton's investment in the KBR common stock and the market value of the shares of Halliburton common stock acquired at that date will be recognized by Halliburton as a gain on disposal of discontinued operations net of any direct and incremental expenses of the exchange offer on the disposal of its KBR common stock.

***What will Halliburton do with the shares of Halliburton common stock it acquires?***

The Halliburton common stock acquired by Halliburton in the exchange offer will be held as treasury stock.



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<b><i>What is the impact of the exchange offer on Halliburton share count?</i></b>	Any Halliburton common stock acquired by Halliburton in the exchange offer will reduce the number of outstanding shares of Halliburton common stock, although Halliburton's actual number of shares outstanding on a given date reflects a variety of factors such as option exercises.
<b><i>Do the statements on the cover page regarding this prospectus being subject to change and the registration statement filed with the SEC not yet being effective mean that the exchange offer has not commenced?</i></b>	As permitted under SEC rules, we have commenced the exchange offer without the registration statement, of which this Prospectus Offer to Exchange forms a part, having been declared effective by the SEC. Halliburton cannot, however, complete the exchange offer and accept for exchange any shares of Halliburton common stock tendered in the exchange offer until the registration statement is declared effective by the SEC and the other conditions to the exchange offer have been satisfied or, where permissible, waived.
<b><i>Where can I find out more information about Halliburton and KBR?</i></b>	You can find out more information about Halliburton and KBR by reading this Prospectus Offer to Exchange and from various sources described in Where You Can Find More Information About Halliburton and KBR.
<b><i>Whom should I call if I have questions about the exchange offer or want copies of additional documents?</i></b>	You may direct any questions about the exchange offer to, or request copies of the exchange offer documents and the other information incorporated by reference in this Prospectus Offer to Exchange from, without charge, the information agent, Georgeson Inc., located at 17 State Street, New York, New York 10004 at 1-866-313-3046 (toll-free in the United States), 1-212-805-7144 (elsewhere) or 1-212-440-9800 (banks and brokers).

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**SUMMARY**

*This summary highlights selected information contained elsewhere in this Prospectus-Offer to Exchange. This summary is not complete and may not contain all of the information that is important to you or that you should consider before tendering any shares of Halliburton common stock. You should carefully read this entire Prospectus Offer to Exchange and the other documents to which it refers. Please read *Where You Can Find More Information About Halliburton and KBR*. Unless the context requires otherwise, in this Prospectus Offer to Exchange, references to *KBR* mean KBR, Inc. and its subsidiaries and references to *Halliburton* mean Halliburton Company and its subsidiaries (excluding KBR). A glossary of certain other terms used in this Prospectus Offer to Exchange can be found in Appendix A hereto. Unless the context otherwise indicates, Halliburton and KBR have assumed throughout this Prospectus Offer to Exchange that the exchange offer will be fully subscribed and that all shares of KBR common stock held by Halliburton will be distributed through the exchange offer.*

**The Companies**

Halliburton Company  
5 Houston Center  
1401 McKinney, Suite 2400  
Houston, Texas 77010  
(713) 759-2600

Halliburton is one of the world's largest oilfield services companies and, through KBR, is a leading provider of engineering and construction services. Halliburton refers to the combination of its Production Optimization, Fluid Systems, Drilling and Formation Evaluation, and Digital and Consulting Solutions segments as its Energy Services Group. Through its Energy Services Group, Halliburton provides a comprehensive range of discrete and integrated products and services for the exploration, development and production of oil and gas. Halliburton serves major national and independent oil and gas companies throughout the world.

KBR, Inc.  
601 Jefferson Street  
Suite 3400  
Houston, Texas 77002  
(713) 753-3011

KBR is a leading global engineering, construction and services company supporting the energy, petrochemicals, government services and civil infrastructure sectors. KBR is a leader in many of the growing end-markets that it serves, particularly gas monetization, having designed and constructed, alone or with joint venture partners, more than half of the world's operating liquefied natural gas (LNG) production capacity over the past 30 years. In addition, KBR is one of the ten largest government defense contractors worldwide based on fiscal 2005 revenues and, accordingly, KBR believes it is the world's largest government defense services provider. KBR offers its wide range of services through two business segments, Energy and Chemicals (E&C) and Government and Infrastructure (G&I).

**The Transaction**

***Background and Reasons for the Exchange Offer (page 49)***

The board of directors of Halliburton has determined that the separation of KBR from Halliburton is in the best interests of Halliburton and its stockholders. KBR completed its initial public offering of 32,016,000 shares of its common stock in November 2006. Halliburton intends to complete the separation by means of the exchange offer and, if necessary, a subsequent pro rata distribution of any remaining KBR shares to Halliburton's stockholders. The separation of KBR from Halliburton will result in two independent companies. The following potential benefits were considered by Halliburton's board of directors in making the determination to effect the separation:

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The separation will permit the independent management of each of Halliburton and KBR to focus its attention and its company's financial resources on its respective distinct business and business challenges and to lead each independent company to adopt strategies and pursue objectives that are appropriate to its respective business.

The separation will allow Halliburton and KBR to better attract, retain and motivate current and future employees through the use of equity-based compensation policies that more directly link employee compensation with financial performance.

Both Halliburton and KBR believe that the differing characteristics of the two companies may appeal to different investor bases.

Halliburton previously disclosed that it intended to dispose of the KBR common stock that it would own following KBR's initial public offering by means of a tax-free distribution, or "spin-off," to Halliburton's stockholders, but that the determination of whether, and if so, when to proceed with the distribution would be entirely within the discretion of Halliburton and that Halliburton could elect to dispose of its KBR common stock in a number of different types of transactions, including a "split-off."

After further consideration of various alternatives for the means of completing the separation of KBR from Halliburton, Halliburton has determined to dispose of its remaining interest in KBR common stock by means of the contemplated exchange offer, also referred to as the "split-off." Halliburton believes that the exchange offer is a tax-efficient way to divest its interest in KBR. The exchange offer also presents an opportunity for Halliburton to repurchase outstanding shares of Halliburton common stock without reducing overall cash and financial flexibility. In addition, the exchange offer provides Halliburton's stockholders with an opportunity to adjust their investment between Halliburton and KBR on a tax-free basis for U.S. federal income tax purposes (except with respect to cash received in lieu of a fractional share). Since Halliburton and KBR have distinct business opportunities and challenges, and financial characteristics, their respective stocks may appeal to different investor bases. The exchange offer is an efficient means of placing KBR common stock with only those Halliburton stockholders who wish to own an interest in KBR. By comparison, a separation effected exclusively by a pro-rata spin-off distribution to Halliburton's stockholders would result in substantially all of Halliburton's stockholders becoming owners of KBR, regardless of their desire to own any shares of KBR.

### ***Relationship of Halliburton and KBR After the Exchange Offer***

The separation of KBR from Halliburton will result in two independent companies that will each be able to focus on maximizing opportunities for its distinct business. Following the separation, Halliburton will no longer own any interest in KBR. As part of the completion of the separation of KBR from Halliburton, each of Messrs. Albert O. Cornelison, Jr., C. Christopher Gaut, Andrew R. Lane and Mark A. McCollum, each of whom is an executive officer of Halliburton, is expected to resign from the board of directors of KBR. In addition, the exchange offer, either alone or together with any subsequent spin-off, will result in the termination of certain rights of Halliburton and obligations of KBR relating to the corporate governance of KBR provided for under the terms of the master separation agreement entered into between KBR and Halliburton in connection with KBR's initial public offering and will trigger certain provisions in KBR's certificate of incorporation and bylaws which become effective at such time Halliburton ceases to beneficially own, directly or indirectly, stock representing at least a majority of KBR's outstanding voting stock. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions*, *Master Separation Agreement*, *Corporate Governance* and *Description of Capital Stock of KBR*, *Charter and Bylaw Provisions*.

### ***Expected Financial Impact of the Exchange Offer on KBR***

KBR completed its initial public offering in November 2006 and has only a limited history of operating as a publicly traded company. In 2007, KBR anticipates incurring approximately \$12 million of additional cost of services and approximately \$23 million of additional general and administrative expense associated with being a separate publicly traded company, including approximately \$8 million of expense for stock-based

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compensation. These public company expenses include anticipated compensation and benefit expenses of KBR's executive management and directors (including stock-based compensation), costs associated with KBR's long-term incentive plan, expenses associated with the preparation of KBR's annual and quarterly reports, proxy statements and other filings with the SEC, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and higher insurance costs due to the unavailability of Halliburton's umbrella insurance coverage. KBR expects to incur additional one-time system costs of approximately \$10 million to replace certain human resources and payroll-related IT systems it currently shares with Halliburton that are not included in the scope of its current SAP implementation process.

Prior to its initial public offering, KBR's primary sources of liquidity were cash flows from operations, including cash advance payments from its customers, and borrowings from Halliburton. KBR is no longer able to rely on Halliburton to meet its liquidity needs, except to the extent Halliburton has agreed to provide credit support under the terms of the master separation agreement. KBR expects its future liquidity will be provided by cash flows from operations, including cash advance payments from its customers, and borrowings under its revolving credit facility. Following KBR's separation from Halliburton, KBR's customers and prospective customers will require credit support and other assurances that KBR has sufficient financial stability on a stand-alone basis. Please read **Risk Factors** **Risks Relating to KBR** **Risks Relating to Customers and Contracts** and **Other Risks Relating to KBR**.

In addition, the separation of KBR from Halliburton may result in the loss of the DML joint venture's interest in the operation of the Devonport Royal Dockyard in exchange for the fair value of the interest and the loss of KBR's interest in DML in exchange for the lower of net asset value or fair market value. Please read **Risk Factors** **Risks Relating to KBR** **Risks Relating to Customers and Contracts**.

## **The Exchange Offer**

### ***Terms of the Exchange Offer (page 54)***

Halliburton is offering to exchange up to 135,627,000 shares of KBR common stock in the aggregate for outstanding shares of Halliburton common stock that are validly tendered and not properly withdrawn. You may tender all, some or none of your shares of Halliburton common stock.

Shares of Halliburton common stock validly tendered and not properly withdrawn will be accepted for exchange at the exchange ratio calculated using the methodology described under **The Exchange Offer** **Terms of the Exchange Offer**, on the terms and conditions of the exchange offer and subject to the limits described below, including the proration provisions. Shares not accepted for exchange will be credited to the tendering holder's account in book-entry form promptly following the expiration or termination of the exchange offer, as applicable.

### ***Procedures for Tendering (page 61)***

The procedures you must follow to participate in the exchange offer will depend on how you hold your shares of Halliburton common stock. For you to validly tender your shares of Halliburton common stock pursuant to the exchange offer, before the expiration of the exchange offer, you will need to take the following steps:

If you hold certificates for shares of Halliburton common stock, you must deliver to the exchange agent at the address listed on the back cover of this Prospectus **Offer to Exchange** a properly completed and duly executed letter of transmittal, together with any required signature guarantees and any other required documents, and the certificates representing the shares of Halliburton common stock tendered;



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If you hold shares in uncertificated form that are directly registered in your name in Halliburton's share register, which we refer to as direct registration shares, you must deliver to the exchange agent at the address listed on the back cover of this Prospectus Offer to Exchange a properly completed and duly executed letter of transmittal, together with any required signature guarantees and any other required

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documents. Since certificates are not issued for direct registration shares, you do not need to deliver any certificates representing those shares to the exchange agent;

If you hold shares of Halliburton common stock through a broker, dealer, commercial bank, trust company or similar institution, you should receive instructions from that institution on how to participate in the exchange offer. **In this situation, do not complete the letter of transmittal.** Please contact the institution through which you hold your shares directly if you have not yet received instructions. Some financial institutions may effect tenders by book-entry transfer through DTC. If you do not hold any certificates for these shares, you do not need to deliver any certificates representing those shares to the exchange agent;

If you wish to tender your shares of Halliburton common stock but share certificates are not immediately available, time will not permit shares or other required documentation to reach the exchange agent before the expiration date or the procedure for book-entry transfer cannot be completed on a timely basis, you must follow the procedures for guaranteed delivery described under *The Exchange Offer Procedures for Tendering Guaranteed Delivery Procedures* ;

If you are a participant in the Halliburton Retirement and Savings Plan, the Halliburton Savings Plan, the Kellogg Brown & Root, Inc. Retirement and Savings Plan, or the Brown & Root, Inc. Employees Retirement and Savings Plan and have amounts invested in the Halliburton Stock Fund under the applicable plan, no action is required by you with respect to such invested amounts. The decision whether to tender shares of Halliburton common stock held in the Halliburton Stock Fund under any of those plans will be made by an independent fiduciary appointed under those plans; and

If you have purchased Halliburton common stock under the Halliburton Employee Stock Purchase Plan or hold shares of Halliburton restricted stock that vested after July 23, 2006, Computershare holds those shares in a custodial account on your behalf, unless you have previously transferred those shares to a brokerage account or requested a stock certificate for those shares. If you have purchased Halliburton common stock under the Halliburton Company UK Employee Shares Purchase Plan, HBOS holds those shares in a custodial account on your behalf, unless you have a previously transferred those shares to a brokerage account or requested a stock certificate for those shares. You make the decision as to whether you wish to tender any of the shares you hold in these custodial accounts in the exchange offer; no fiduciary will make that decision on your behalf. The exchange agent will furnish you materials describing what action you need to take if you wish to tender any of the shares held in the custodial account maintained by Computershare or HOBS on your behalf.

### *Withdrawal Rights (page 66)*

You may withdraw your tendered shares of Halliburton common stock at any time before the expiration of the exchange offer and, unless Halliburton has previously accepted them pursuant to the exchange offer, you may withdraw your tendered shares at any time after the expiration of 40 business days from the commencement of the exchange offer. If you decide to re-tender your Halliburton common stock before the expiration of the exchange offer, you may do so by again following the exchange offer procedures.

In order to withdraw your shares, you (or, if you hold your shares through a broker, dealer, commercial bank, trust company or similar institution, that institution on your behalf) must provide a written notice or facsimile transmission notice of withdrawal to the exchange agent. If you hold your shares through a broker, dealer, commercial bank, trust company, custodian or similar institution, you should consult that institution on the procedures you must comply with and the time by which such procedures must be completed in order for that institution to provide a written notice of withdrawal or facsimile notice of withdrawal to the exchange agent on your behalf before the expiration of the exchange offer. The information that must be included in that notice is specified under *The Exchange Offer*

Withdrawal Rights.

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***Delivery of KBR Common Stock; Book Entry Accounts (page 67)***

The exchange agent will cause shares of KBR common stock to be credited in book-entry form to direct registration accounts maintained by KBR's transfer agent for the benefit of the respective holders (or, in the case of shares tendered through DTC, to the account of DTC so that DTC can credit the relevant DTC participant and such participant can credit its respective account holders) promptly after acceptance of shares of Halliburton common stock in the exchange offer and determination of the final proration factor, if any.

***Legal and Other Limitations; Certain Matters Relating to Non-U.S. Jurisdictions (page 73)***

Except as described elsewhere in this Prospectus Offer to Exchange, Halliburton is not aware of any U.S. jurisdiction where the making of the exchange offer or its acceptance would not be legal. If Halliburton learns of any U.S. jurisdiction where making the exchange offer or its acceptance would not be permitted, Halliburton intends to make a good faith effort to comply with the relevant law in order to enable such offer and acceptance to be permitted. If, after such good faith effort, Halliburton cannot comply with such law, Halliburton will determine whether the exchange offer will be made to and whether tenders will be accepted from or on behalf of persons who are holders of shares of Halliburton common stock residing in the jurisdiction.

Although Halliburton will mail this Prospectus Offer to Exchange to its stockholders to the extent required by U.S. law, including to stockholders located outside the United States, this Prospectus Offer to Exchange is not an offer to sell or exchange and it is not a solicitation of an offer to buy or exchange any shares of Halliburton common stock or KBR common stock in any jurisdiction in which such offer, sale or exchange is not permitted. Countries outside the United States generally have their own legal requirements that govern securities offerings made to persons resident in those countries and often impose stringent requirements about the form and content of offers made to the general public. Halliburton has not taken any action under those non-U.S. regulations to facilitate a public offer to exchange the KBR common stock outside the United States. Therefore, the ability of any non-U.S. person to tender Halliburton common stock in the exchange offer will depend on whether there is an exemption available under the laws of such person's home country that would permit the person to participate in the exchange offer without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise. For example, some countries exempt transactions from the rules governing public offerings if they involve persons who meet certain eligibility requirements relating to their status as sophisticated or professional investors.

All tendering holders must make certain representations in the letter of transmittal, including (in the case of non-U.S. holders) as to the availability of an exemption under their home country laws that would allow them to participate without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise. Halliburton will rely on those representations and, unless the exchange offer is terminated, plans to accept shares tendered by persons who properly complete the letter of transmittal and provide any other required documentation on a timely basis and as otherwise described herein.

Non-U.S. stockholders should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries and, if they do participate, whether there are any restrictions or limitations on transactions in the KBR common stock that may apply in their home countries. Halliburton, KBR and the dealer managers cannot provide any assurance about whether such limitations may exist. Please read The Exchange Offer Legal and Other Limitations; Certain Matters Relating to Non-U.S. Jurisdictions for additional information about limitations on the exchange offer outside the United States.

***Spin-Off Distribution of KBR Common Stock (page 77)***

Halliburton has informed KBR that, following the completion or termination of the exchange offer, it will make a special pro rata dividend distribution of any and all of its remaining shares of KBR common stock. The record date for holders to receive shares in any special spin-off distribution will be set promptly following the expiration of the exchange offer.

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### **Risk Factors (page 10)**

In deciding whether to tender your shares of Halliburton common stock, you should carefully consider the matters described in Risk Factors, as well as other information included in this Prospectus Offer to Exchange and the other documents incorporated by reference herein.

### **Market Prices and Dividend Information (page 77)**

Halliburton common stock is listed on the New York Stock Exchange under the symbol HAL. KBR common stock is listed on the New York Stock Exchange under the symbol KBR. On March 22, 2007, the reported last sales prices of Halliburton common stock and KBR common stock on the New York Stock Exchange were \$30.75 and \$20.24 per share, respectively. The indicative calculated per-share values, based on the arithmetic average of the daily VWAPs of Halliburton common stock and KBR common stock on March 20, 2007, March 21, 2007 and March 22, 2007, were \$30.51970 and \$20.26073 per share, respectively. Accordingly, the indicative exchange ratio that would have been in effect following the official close of trading on the New York Stock Exchange on March 22, 2007, based on the indicative calculated per-shares values of Halliburton common stock and KBR common stock as of March 22, 2007, would have been subject to the maximum exchange ratio and thereby provided for 1.5905 shares of KBR common stock to be exchanged for every share of Halliburton common stock accepted in the exchange offer.

KBR does not anticipate declaring or paying any dividends on its common stock in the foreseeable future.

### **Regulatory Approval (page 52)**

Certain acquisitions of KBR common stock under the exchange offer may require a notification filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Halliburton will not be required to accept shares for exchange, and may extend, terminate or amend the exchange offer, if Halliburton reasonably expects that the completion of the exchange offer will result in any person or group of persons acquiring shares of KBR common stock in an amount that would require a notification filing under the Hart-Scott-Rodino Act. Please read The Exchange Offer Conditions to Completion of the Exchange Offer Other Conditions. However, if a holder of Halliburton common stock decides to participate in the exchange offer and consequently acquires enough shares of KBR common stock to exceed the \$59.8 million threshold provided for in the Hart-Scott-Rodino Act and associated regulations (and if an exemption under the Hart-Scott-Rodino Act or regulations does not apply) and Halliburton waives the foregoing condition, Halliburton and the holder would be required to make filings under the Hart-Scott-Rodino Act and the holder would be required to pay the applicable filing fee. A filing requirement could delay the exchange of shares with the holder until the waiting periods in the Hart-Scott-Rodino Act have expired or been terminated.

Apart from the registration of shares of KBR common stock offered in the exchange offer under applicable securities laws and Halliburton's filing of a Schedule TO with the SEC, Halliburton does not believe that any other material U.S. federal or state regulatory filings or approvals will be necessary to consummate the exchange offer and any subsequent spin-off.

### **U.S. Federal Income Tax Consequences (page 196)**

Halliburton has received an opinion of counsel confirming the tax-free status, for U.S. federal income tax purposes, of the exchange offer and any subsequent spin-off to Halliburton's stockholders (except with respect to any cash received in lieu of a fractional share). It is a condition to the consummation of the exchange offer and any subsequent spin-off that such opinion not be withdrawn. The opinion of counsel does not address any state, local or foreign tax consequences of the exchange offer and any subsequent spin-off that may apply to Halliburton and its stockholders.

Halliburton has also requested a ruling from the Internal Revenue Service in connection with the exchange offer. However, the consummation of the exchange offer is not conditioned upon receipt of a ruling from the Internal Revenue Service. You should consult your own tax advisor regarding the particular consequences to you of the exchange offer and any subsequent spin-off.

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**Accounting Treatment of the Exchange Offer (page 52)**

The shares of Halliburton common stock acquired by Halliburton in the exchange offer will be recorded as an acquisition of treasury stock at a cost equal to the market value of the Halliburton shares accepted in the exchange offer at its expiration. Any difference between the net book value of Halliburton's investment in the KBR common stock and the market value of the shares of Halliburton common stock acquired at that date will be recognized by Halliburton as a gain on disposal of discontinued operations net of any direct and incremental expenses of the exchange offer on the disposal of its KBR common stock.

**Comparison of Stockholder Rights (page 207)**

Differences in the rights of a stockholder of Halliburton from those of a stockholder of KBR arise principally from provisions of the certificate of incorporation and bylaws of each of Halliburton and KBR. Halliburton's directors serve one-year terms and may be removed with or without cause. KBR's directors are divided into three classes of successive three-year terms and may be removed only for cause. KBR stockholders may not call a special meeting of the board of directors, but Halliburton stockholders owning a majority of voting stock may call a special meeting.

In addition, although neither Halliburton nor KBR is legally or contractually bound to pay dividends, Halliburton has paid dividends in each of the past five years, and KBR does not anticipate paying any dividends in the foreseeable future.

**The Exchange Agent**

The exchange agent for the exchange offer is Mellon Investor Services LLC.

**The Information Agent**

The information agent for the exchange offer is Georgeson Inc.

**The Dealer Managers**

The dealer managers for the exchange offer are Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. We refer to those firms in this Prospectus Offer to Exchange as the dealer managers.



**Table of Contents****Selected Historical Consolidated Financial Data for Halliburton and KBR*****Halliburton Selected Historical Consolidated Financial Data***

The selected historical consolidated financial data presented below have been derived from, and should be read together with, Halliburton's consolidated financial statements and the accompanying notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in Halliburton's Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference into this Prospectus Offer to Exchange, and Halliburton Unaudited Pro Forma Condensed Consolidated Financial Information included elsewhere in this Prospectus Offer to Exchange. The selected consolidated statement of operations data for the years ended December 31, 2006, 2005 and 2004 and the consolidated balance sheet data as of December 31, 2006 and 2005 have been derived from Halliburton's audited financial statements incorporated by reference into this Prospectus-Offer to Exchange. The data shown below are not necessarily indicative of results to be expected for any future period. To find out where you can obtain copies of Halliburton's documents that have been incorporated herein by reference, please read Where You Can Find More Information About Halliburton and KBR.

	<b>Years Ended December 31,</b>					
	<b>Pro forma 2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Millions of dollars and shares except per share and employee data)</b>					
<b>Statement of Operations</b>						
<b>Data:</b>						
Total revenue	\$ 12,955	\$ 22,576	\$ 20,240	\$ 19,878	\$ 15,797	\$ 11,956
Total operating income (loss)	3,246	\$ 3,484	\$ 2,617	\$ 820	\$ 705	\$ (137)
Nonoperating expense, net	(48)	(35)	(170)	(186)	(108)	(116)
Income (loss) from continuing operations before income taxes and minority interest	3,198	3,449	2,447	634	597	(253)
Provision for income taxes	(1,011)	(1,144)	(64)	(235)	(229)	(70)
Minority interest in net income of consolidated subsidiaries	(18)	(33)	(56)	(25)	(39)	(38)
Income (loss) from continuing operations	\$ 2,169	\$ 2,272	\$ 2,327	\$ 374	\$ 329	\$ (361)
Income (loss) from discontinued operations	N/A	\$ 76	\$ 31	\$ (1,353)	\$ (1,141)	\$ (637)
Net income (loss)	N/A	\$ 2,348	\$ 2,358	\$ (979)	\$ (820)	\$ (998)
Basic income (loss) per share:						

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Continuing operations	\$ 2.35	\$ 2.24	\$ 2.31	\$ 0.43	\$ 0.38	\$ (0.42)
Net income (loss)	N/A	\$ 2.31	\$ 2.34	\$ (1.12)	\$ (0.95)	\$ (1.16)
Diluted income (loss) per share:						
Continuing operations	\$ 2.25	\$ 2.16	\$ 2.24	\$ 0.42	\$ 0.38	\$ (0.42)
Net income (loss)	N/A	\$ 2.23	\$ 2.27	\$ (1.11)	\$ (0.94)	\$ (1.16)
Basic weighted average common shares outstanding	922	1,014	1,010	874	868	864
Diluted weighted average common shares outstanding	962	1,054	1,038	882	874	864
Cash dividends per share	N/A	0.30	0.25	0.25	0.25	0.25
Return on average shareholders equity	N/A	34.16%	45.76%	(30.22)%	(26.86)%	(24.02)%
<b>Other Financial Data:</b>						
Capital expenditures	\$ (834)	\$ (891)	\$ (651)	\$ (575)	\$ (515)	\$ (764)
Long-term borrowings (repayments), net	(324)	(341)	(799)	476	1,896	(15)
Depreciation, depletion, and amortization expense	(480)	(527)	(504)	(509)	(518)	(505)
Number of employees	48,000	104,000	100,000	94,000	99,000	82,000
<b>Balance Sheet Data:</b>						
Net working capital	\$ 5,389	\$ 6,456	\$ 4,959	\$ 2,898	\$ 1,355	\$ 2,288
Total assets	11,572	16,820	15,048	15,864	15,556	12,844
Property, plant, and equipment, net	2,556	3,048	2,648	2,545	2,518	2,619
Long-term debt (including current maturities)	2,811	2,831	3,174	3,940	3,437	1,476
Shareholders equity	5,796	7,376	6,372	3,932	2,547	3,558
Total capitalization	8,608	10,208	9,568	7,887	6,002	5,083

**Table of Contents*****KBR Selected Historical Consolidated Financial Data***

The selected historical consolidated financial data presented below have been derived from, and should be read together with KBR's consolidated financial statements, the accompanying notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations of KBR included elsewhere in this Prospectus Offer to Exchange. The selected consolidated statement of operations data for the years ended December 31, 2006, 2005 and 2004 and the consolidated balance sheet data as of December 31, 2006 and 2005 have been derived from KBR's audited consolidated financial statements included elsewhere in this Prospectus Offer to Exchange. The selected consolidated statement of operations data for the year ended December 31, 2003 and the consolidated balance sheet data as of December 31, 2004 and 2003 have been derived from KBR's audited financial statements not included in this Prospectus Offer to Exchange. The selected consolidated statement of operations data for the year ended December 31, 2002 and the consolidated balance sheet data as of December 31, 2002 have been derived from unaudited financial statements not included in this Prospectus Offer to Exchange. The data shown below are not necessarily indicative of results to be expected for any future period.

	<b>Years Ended December 31,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(In millions, except for per share amounts)</b>				
<b>Statement of Operations Data:</b>					
Total revenue	\$ 9,633	\$ 10,146	\$ 11,906	\$ 8,863	\$ 5,125
Operating costs and expenses:					
Cost of services	9,285	9,716	12,171	8,849	5,218
General and administrative	108	85	92	82	89
Gain of sale of assets, net	(6)	(110)		(4)	
Operating income (loss)	246	455	(357)	(64)	(182)
Interest expense and other	(26)	(22)	(28)	(41)	1
Income (loss) from continuing operations before income taxes and minority interest	220	433	(385)	(105)	(181)
Benefit (provision) for income taxes	(129)	(182)	96	(11)	98
Minority interest in net income of consolidated subsidiaries	(10)	(41)	(25)	(26)	(45)
Income (loss) from continuing operations	81	210	(314)	(142)	(128)
Income from discontinued operations, net of tax provisions	87	30	11	9	15
Cumulative effect of change in accounting principle, net					21
Net income (loss)	\$ 168	\$ 240	\$ (303)	\$ (133)	\$ (92)
<b>Basic and diluted income (loss) per share:</b>					
Continuing operations	\$ 0.58	\$ 1.54	\$ (2.31)	\$ (1.04)	\$ (0.94)
Discontinued operations	0.62	0.22	0.08	0.06	0.11
Cumulative effect of change in accounting principle					0.15

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Basic and diluted net income (loss) per share	\$ 1.20	\$ 1.76	\$ (2.23)	\$ (0.98)	\$ (0.68)
Weighted average shares outstanding	140	136	136	136	136
<b>Other Financial Data:</b>					
Capital expenditures	\$ 57	\$ 76	\$ 74	\$ 63	\$ 161
Depreciation and amortization expense	47	56	52	51	29

	<b>At December 31,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(In millions)</b>				
<b>Balance Sheet Data:</b>					
Cash and equivalents	\$ 1,461	\$ 394	\$ 234	\$ 439	\$ 858
Net working capital	915	944	765	882	913
Property, plant and equipment, net	492	444	467	431	411
Total assets	5,407	5,182	5,487	5,532	4,031
Amounts due to parent, net	152		1,188	1,165	685
Total debt (including notes payable to parent)	20	808	60	77	71
Shareholders' equity	1,787	1,256	812	944	1,133

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**RISK FACTORS**

In determining whether or not to tender your shares of Halliburton common stock in the exchange offer, you should consider carefully all of the information about KBR and Halliburton included or incorporated by reference in this Prospectus-Offer to Exchange, as well as the information about the terms and conditions of the exchange offer. None of Halliburton, KBR or any of their respective directors or officers or the dealer managers makes any recommendation as to whether you should tender your shares of Halliburton common stock. You must make your own decision after reading this document and consulting with your advisors.

The risk factors described below are separated into three groups:

Risks Relating to KBR;

Risks Relating to Halliburton; and

Risks Relating to the Exchange Offer and Any Subsequent Spin-Off.

Risks Relating to KBR and Risks Relating to Halliburton describe the material risks relating to KBR and Halliburton, respectively, as stand-alone companies following the completion of the separation of KBR from Halliburton, as contemplated by this exchange offer and any subsequent spin-off distribution. For a description of the material risks relating to Halliburton prior to the consummation of the proposed exchange offer, please read Management's Discussion and Analysis of Financial Condition and Results of Operations, Forward-Looking Information and Risk Factors in Halliburton's Annual Report on Form 10-K for the year ended December 31, 2006, which report is incorporated by reference in this Prospectus Offer to Exchange.

The occurrence of the events described below under the risks relating to KBR or Halliburton could have a material adverse effect on each respective company's businesses, prospects, financial condition, results of operations and/or cash flows. In such a case, the price of shares of KBR common stock and/or shares of Halliburton common stock, as the case may be, may decline and you could lose all or part of your investment. In addition, the risks described in this Prospectus-Offer to Exchange relating to KBR are, until the completion of the exchange offer and any subsequent spin-off, also associated with an investment in Halliburton due to Halliburton's ownership interest in KBR. In addition, other unknown or unpredictable economic, business, competitive, regulatory, geopolitical or other factors could have material adverse effects on KBR's or Halliburton's businesses, prospects, financial condition, results of operations and/or cash flows. Please read Cautionary Statement About Forward-Looking Statements.

**Risks Relating to KBR**

**Risks Relating to Customers and Contracts**

*KBR's G&I segment is directly affected by spending and capital expenditures by its customers and KBR's ability to contract with its customers.*

KBR's G&I segment is directly affected by spending and capital expenditures by its customers and KBR's ability to contract with its customers. For example:

*A decrease in the magnitude of work KBR performs for the United States government in Iraq and for the U.K. Ministry of Defence (MoD) through KBR's DML joint venture or other decreases in governmental spending*

*and outsourcing for military and logistical support of the type that KBR provides could have a material adverse effect on its business, results of operations and cash flow.* For example, the current level of government services being provided in the Middle East will not likely continue for an extended period of time, and the current rate of spending has decreased substantially compared to 2005 and 2004. KBR's government services revenue related to Iraq under the LogCAP III and other contracts totaled \$4.7 billion in 2006, \$5.4 billion in 2005 and \$7.1 billion in 2004. In August 2006, the U.S. Department of Defense (DoD) issued a request for proposals on a new competitively bid, multiple service provider LogCAP IV contract to replace the current LogCAP III contract. KBR is currently the sole provider under the LogCAP III contract. In October 2006, KBR submitted the final portion of its bid on the LogCAP IV contract. KBR expects that the contract will be awarded during

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the second quarter of 2007. KBR may not be awarded any part of the LogCAP IV contract, which may have a material adverse effect on KBR's results of operations. Despite the award of the August 2006 task order under the LogCAP III contract and the possibility of being awarded a portion of the LogCAP IV contract, KBR expects the overall volume of work to decline as its customer scales back the amount of services it provides. KBR expects to complete all open task orders under the LogCAP III contract during the third quarter of 2007. KBR expects its volume of work under the MoD contract with the DML joint venture to refit and refuel the MoD's nuclear submarine fleet to decline in 2009 and 2010 as DML completes this round of refueling of the current fleet.

*The loss of the United States government as a customer would, and the loss of the MoD as a customer could, have a material adverse effect on KBR's business, results of operations and cash flow.* The loss of the United States government as a customer, or a significant reduction in KBR's work for it, would have a material adverse effect on KBR's business, results of operations and cash flow. Revenue from United States government agencies represented 61% of KBR's revenue in 2006, 65% in 2005 and 67% in 2004. The MoD is also a substantial customer, the loss of which could have a material adverse effect on KBR's business, results of operations and cash flow.

*The separation of KBR from Halliburton may adversely affect or result in the loss of the DML joint venture's interest in the operation of the Devonport Royal Dockyard in exchange for the fair value of the interest and the loss of KBR's interest in DML in exchange for the lower of net asset value or fair market value, which could have a material adverse effect on KBR's future prospects, business, results of operations and cash flow.* On November 13, 2006, the MoD asked KBR to withdraw its initial public offering pending the MoD's financial analysis of KBR on a stand-alone basis. The MoD also advised KBR that if it proceeded with the initial public offering without satisfying the MoD, the MoD would have little option but to take steps to cause the MoD to use its power to safeguard the essential security interests of the United Kingdom with respect to the Devonport Royal Dockyard. If the MoD deems it to be in the essential security interests of the United Kingdom, the MoD has the right to make DML's interest in the Devonport Royal Dockyard non-voting and may have a right to remove DML's directors of the Devonport Royal Dockyard, in which case DML would retain its economic interest in the Devonport Royal Dockyard, or the MoD may assume at any time control of the Devonport Royal Dockyard and dispose of DML's interest on its behalf at fair value. In such a situation, the MoD would appoint an international firm of chartered accountants to determine the fair value for DML's interest. In such event, there would be a risk that KBR may not agree with the determined value of DML's interest in the Devonport Royal Dockyard, and it is unclear if and/or how KBR could challenge the determination. Any such action by the MoD would be an event of default under the DML shareholders agreement and would permit the other partners in the DML joint venture to acquire KBR's interest in the DML joint venture at the lower of net asset value (generally a shareholder's initial and subsequent investment and the proportionate share of consolidated capital and revenue reserves) or fair market value, which would be determined by a chartered accountant and would be final and binding absent manifest error. KBR believes that the net asset value of its investment in the DML joint venture may be significantly less than the fair market value of that investment. Any exercise by KBR's partners in the DML joint venture of their rights to acquire KBR's interest in DML would not prejudice any other rights or remedies available to them under the joint venture agreement or otherwise. KBR is engaging in discussions with the MoD regarding KBR's ownership in DML and the possibility of reducing or disposing of KBR's interest. Although no decision has been made with respect to a disposition or reduction of its interest in DML, KBR is supporting a process to identify potential bidders that may have an interest in acquiring its interest in DML. KBR does not know at this time if the process will result in a disposition or reduction of its interest in DML.

Revenue from KBR's DML shipyard operations for the years ended December 31, 2006 and 2005 was \$850 million and \$863 million, respectively, representing 9% for both of the years ended December 31, 2006 and 2005 of KBR's

total revenue for each such period. Operating income from KBR's DML shipyard operations for the years ended December 31, 2006 and 2005 was \$86 million and \$62 million, respectively, representing 35% and 14%, respectively, of KBR's total operating income for such periods.



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Cash flow provided by operating activities of KBR's DML shipyard operations for the years ended December 31, 2006 and 2005 was \$59 million and \$46 million, respectively, representing 6% and 9%, respectively, of KBR's total cash flow provided by operating activities for such periods. Basic and diluted income from continuing operations per share generated by KBR's DML shipyard operations for the years ended December 31, 2006 and 2005 was \$0.21 per share and \$0.16 per share, respectively, representing 36% and 10% respectively, of KBR's total basic and diluted income from continuing operations per share. Accordingly, the separation of KBR from Halliburton without satisfying the MoD, or the loss of DML's interest in the Devonport Royal Dockyard and the loss of KBR's interest in DML, could have a material adverse effect on KBR's future prospects, business, results of operations and cash flow.

*Potential consequences arising out of investigations into United States Foreign Corrupt Practices Act (FCPA) matters and antitrust matters and the investigation by the United Kingdom Serious Frauds Office could include suspension or debarment by the DoD or another federal, state or local government agency or by the MoD of KBR and its affiliates from their ability to contract with such parties, which could have a material adverse effect on KBR's business, results of operations and cash flow. Please read Risks Relating to Investigations.*

*An increase in the magnitude of governmental spending and outsourcing for military and logistical support could materially and adversely affect KBR's liquidity needs as a result of additional or continued working capital requirements to support this work. A rapid increase in the magnitude of work required under KBR's government contracts, similar to what occurred in mid and late 2003 when military operations in Iraq ramped up quickly, could adversely affect KBR's liquidity. Please read Other Risks Relating to KBR. KBR experiences increased working capital requirements from time to time associated with its business, and such an increased demand for working capital could adversely affect its ability to meet its liquidity needs.*

*A decrease in capital spending for infrastructure and other projects of the type that KBR undertakes could have a material adverse effect on its business, results of operations and cash flow.*

***KBR's E&C segment depends on demand and capital spending by oil and natural gas companies for its services, which is directly affected by trends in oil and gas prices and other factors affecting KBR's customers.***

Demand for many of the services of KBR's E&C segment depends on capital spending by oil and natural gas companies, including national and international oil companies, which is directly affected by trends in oil and natural gas prices. Capital expenditures for refining and distribution facilities by large oil and gas companies have a significant impact on the activity levels of KBR's businesses. Demand for LNG facilities for which KBR provides construction services would decrease in the event of a sustained reduction in crude oil prices. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies or longer-term higher material and contractor prices impacting facility costs can similarly reduce or defer major expenditures given the long-term nature of many large-scale projects. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other factors that are beyond KBR's control. Factors affecting the prices of oil and natural gas include:

worldwide political, military, and economic conditions;

the cost of producing and delivering oil and natural gas;

the level of demand for oil and natural gas;

governmental regulations or policies, including the policies of governments regarding the use of energy and the exploration for and production and development of their oil and natural gas reserves;

a reduction in energy demand as a result of energy taxation or a change in consumer spending patterns;  
economic growth in China and India;

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the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;

global weather conditions and natural disasters;

oil refining capacity;

shifts in end-customer preferences toward fuel efficiency and the use of natural gas;

potential acceleration of the development of alternative fuels; and

environmental regulation, including limitations on fossil fuel consumption based on concerns about its relationship to climate change.

Historically, the markets for oil and natural gas have been volatile and are likely to continue to be volatile in the future.

Demand for services in KBR's E&C segment may also be materially and adversely affected by the consolidation of its customers, which:

could cause customers to reduce their capital spending, which in turn reduces the demand for KBR's services; and

could result in customer personnel changes, which in turn affects the timing of contract negotiations and settlements of claims and claim negotiations with engineering and construction customers on cost variances and change orders on major projects.

***KBR's results of operations depend on the award of new contracts and the timing of the performance of these contracts.***

*Because a substantial portion of KBR's revenue is generated from large-scale projects and the timing of new project awards is unpredictable, KBR's results of operations and cash flow may be subject to significant periodic fluctuations.* A substantial portion of KBR's revenue is directly or indirectly derived from large-scale international and domestic projects. With regard to E&C projects, worldwide resource constraints, escalating material and equipment prices, and ongoing supply chain pricing pressures are causing delays in awards of and, in some cases, cancellations of major gas monetization and upstream prospects. Of the eight very large scale (each defined for these purposes as having approximately \$2 billion or more in estimated revenue to KBR or other parties (or total installed cost to the client) over the course of the project) natural gas projects that KBR has been pursuing for new awards, three have either been cancelled or awarded to competitors and KBR believes the awards of two others may also be significantly delayed or cancelled. Although two additional very large scale natural gas projects have subsequently been added to KBR's pursuit list, due to the lengthy nature of the bidding process, KBR does not expect awards for these projects to be made in the near term. These developments may negatively and materially impact 2007 and 2008 results (excluding consideration of potential offsets such as the slower than expected decline in LogCAP III activity, or work in other areas and overhead reductions that may or may not be realized). It is generally very difficult to predict whether or when KBR will receive such awards as these contracts frequently involve a lengthy and complex bidding and selection process which is affected by a number of factors, such as market conditions, financing arrangements, governmental approvals and environmental matters. Because a significant portion of KBR's revenue is generated from large projects, KBR's results of operations and cash flow can fluctuate significantly from quarter to quarter depending on the timing of contract awards. In addition, many of these contracts are subject to financing contingencies and, as a

result, KBR is subject to the risk that the customer will not be able to secure the necessary financing for the project.

*If KBR is unable to provide its customers with bonds, letters of credit or other credit enhancements, KBR may be unable to obtain new project awards. In addition, KBR cannot rely on Halliburton to provide payment and performance guarantees of KBR's bonds, letters of credit and contracts entered into after KBR's initial public offering as it has done in the past, except to the extent Halliburton has agreed to do so under the terms of the master separation agreement. Customers may require KBR to provide credit enhancements, including*

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bonds, letters of credit or performance or financial guarantees. In line with industry practice, KBR is often required to provide performance and surety bonds to customers. These bonds indemnify the customer should KBR fail to perform its obligations under the contract. KBR has minimal stand-alone bonding capacity and other credit support capacity without Halliburton and, except to the limited extent set forth in the master separation agreement, Halliburton is not obligated to provide credit support for KBR's new surety bonds. KBR is engaged in discussions with surety companies to obtain additional stand-alone bonding capacity, but KBR may not be successful. If a bond is required for a particular project and KBR is unable to obtain an appropriate bond, KBR cannot pursue that project. Moreover, due to events that affect the insurance and bonding markets generally, bonding may be difficult to obtain or may only be available at significant cost. Because of liquidity or other issues, KBR could at times be unable to provide necessary letters of credit. In addition, future projects may require KBR to obtain letters of credit that extend beyond the term of its current credit facility. Further, KBR's credit facility limits the amount of new letters of credit and other debt KBR can incur outside of the credit facility to \$250 million, which could adversely affect its ability to bid or bid competitively on future projects if the credit facility is not amended or replaced. Please read *Other Risks Relating to KBR* *KBR experiences increased working capital requirements from time to time associated with its business, and such an increased demand for working capital could adversely affect its ability to meet its liquidity needs.* Prior to KBR's initial public offering, Halliburton has provided guarantees of most of KBR's surety bonds and letters of credit as well as most other payment and performance guarantees under KBR's contracts. The credit support arrangements in existence at the completion of KBR's initial public offering will remain in effect, but Halliburton is not expected to enter into any new credit support arrangements on KBR's behalf, except to the limited extent Halliburton is obligated to do so under the master separation agreement. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions* *Master Separation Agreement* *Credit Support Instruments.* KBR has agreed to indemnify Halliburton for all losses under its outstanding credit support instruments and any additional credit support instruments for which Halliburton may become obligated following KBR's initial public offering, and under the master separation agreement, KBR has agreed to use its reasonable best efforts to attempt to release or replace Halliburton's liability thereunder for which such release or replacement is reasonably available. Any inability to obtain adequate bonding and/or provide letters of credit or other customary credit enhancements and, as a result, to bid on new work could have a material adverse effect on KBR's business prospects and future revenue.

*KBR's customers and prospective customers will need assurances that its financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them.* KBR does not expect that Halliburton will provide, and Halliburton has not provided, payment and performance guarantees of its bonds, letters of credit and contracts entered into after KBR's initial public offering as it has in the past, except to the extent Halliburton has agreed to do so under the terms of the master separation agreement. KBR's customers and prospective customers will need assurances that its financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them. If KBR's customers or prospective customers are not satisfied with its financial stability absent the support from Halliburton that KBR has relied on in the past, it could have a material adverse effect on its ability to bid for and obtain or retain projects, its business prospects and future revenues.

*Limitations on its use of agents as part of its efforts to comply with applicable laws, including the FCPA, could put KBR at a competitive disadvantage in pursuing large-scale international projects.* Most of KBR's large-scale international projects are pursued and executed using one or more agents to assist in understanding customer needs, local content requirements, and vendor selection criteria and processes and in communicating information from KBR regarding its services and pricing. In July 2006, KBR adopted enhanced procedures for the retention of agents to promote compliance with applicable laws, including with the FCPA. An agreed settlement or loss at trial relating to the FCPA matters described below under *Risks Relating to Investigations* could result in a monitor being appointed to review future practices for compliance with the FCPA, including with respect to the retention of agents. KBR's compliance procedures or having a monitor could result in a more limited use of agents on large-scale international projects than in the past. Accordingly, KBR could be at a competitive disadvantage in pursuing such projects, which

could have a material adverse effect on its ability to win contracts and its future revenue and business prospects.

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*The DoD awards its contracts through a rigorous competitive process and KBR's efforts to obtain future contract awards from the DoD, including the LogCAP IV contract, may be unsuccessful, and the DoD has recently favored multiple award task order contracts.* The DoD conducts a rigorous competitive process for awarding most contracts. In the services arena, the DoD uses multiple contracting approaches. It uses omnibus contract vehicles, such as LogCAP, for work that is done on a contingency, or as-needed basis. In more predictable sustainment environments, contracts may include both fixed-price and cost-reimbursable elements. The DoD has also recently favored multiple award task order contracts, in which several contractors are selected as eligible bidders for future work. Such processes require successful contractors to continually anticipate customer requirements and develop rapid-response bid and proposal teams as well as have supplier relationships and delivery systems in place to react to emerging needs. KBR will face rigorous competition for any additional contract awards from the DoD, and KBR may be required to qualify or continue to qualify under the various multiple award task order contract criteria. The DoD has announced that the new LogCAP IV contract, which will replace the current LogCAP III contract under which KBR is the sole provider, will be a multiple award task order contract. KBR may not be awarded any part of the LogCAP IV contract, which may have a material adverse effect on KBR's results of operations. It may be more difficult for KBR to win future awards from the DoD, and KBR may have other contractors sharing in any DoD awards that KBR wins. In addition, negative publicity regarding findings out of DCAA and Congressional investigations may adversely affect KBR's ability to obtain future awards.

*The uncertainty of the timing of future contract awards may inhibit KBR's ability to recover its labor costs.* The uncertainty of KBR's contract award timing can also present difficulties in matching workforce size with contract needs. In some cases, KBR maintains and bears the cost of a ready workforce that is larger than called for under existing contracts in anticipation of future workforce needs for expected contract awards. If an expected contract award is delayed or not received, KBR may not be able to recover its labor costs, which could have a material adverse effect on KBR.

***A significant portion of KBR's projects is on a fixed-price basis, subjecting KBR to the risks associated with cost over-runs, operating cost inflation and potential claims for liquidated damages.***

KBR's long-term contracts to provide services are either on a cost-reimbursable basis or on a fixed-price basis. At December 31, 2006, 43% of its backlog for continuing operations was attributable to fixed-price contracts and 57% was attributable to cost-reimbursable contracts. KBR's failure to accurately estimate the resources and time required for a fixed-price project or its failure to complete its contractual obligations within the time frame and costs committed could have a material adverse effect on its business, results of operations and financial condition. In connection with projects covered by fixed-price contracts, KBR generally bears the risk of cost over-runs, operating cost inflation, labor availability and productivity, and supplier and subcontractor pricing and performance. Under both its fixed-price contracts and its cost-reimbursable contracts, KBR generally relies on third parties for many support services, and KBR could be subject to liability for engineering or systems failures. Risks under its contracts include:

*KBR's engineering, procurement and construction projects may encounter difficulties in the design or engineering phases, related to the procurement of supplies, and due to schedule changes, equipment performance failures, and other factors that may result in additional costs to KBR, reductions in revenue, claims or disputes.* KBR's engineering, procurement and construction projects generally involve complex design and engineering, significant procurement of equipment and supplies, and extensive construction management. Many of these projects involve design and engineering, procurement and construction phases that may occur over extended time periods, often in excess of two years. KBR may encounter difficulties in the design or engineering, equipment and supply delivery, schedule changes, and other factors, some of which are beyond its control, that impact its ability to complete a project in accordance with the original delivery schedule. In some cases, the equipment KBR purchases for a project does not perform as expected, and these

performance failures may result in delays in completion of the project or additional costs to KBR or the customer to complete the project and, in some cases, may require KBR to obtain alternate equipment at additional cost.



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For example, during 2006, KBR identified increases in the originally estimated \$1.7 billion cost to complete KBR's consolidated 50%-owned GTL project in Escravos, Nigeria of approximately \$452 million, which resulted in KBR recording charges totaling \$157 million before minority interest and taxes during that year. These charges were primarily attributable to increases in the overall estimated cost to complete this four-plus-year project. The project, which was awarded in April 2005, has experienced delays relating to civil unrest and security on the Escravos River, near the project site. Further delays have resulted from scope changes, as well as engineering and construction modifications due to necessary front-end engineering design changes. As of September 30, 2006, KBR had approximately \$269 million in unapproved change orders related to this project. In the fourth quarter of 2006, KBR reached agreement with the project owner to settle these change orders. As a result, portions of the remaining work should now have a lower risk profile, particularly with respect to the responsibility for security costs and logistics. As of December 31, 2006, KBR had estimated significant additional cost increases, which KBR currently expects to recover through change orders. As of December 31, 2006, KBR had recorded \$43 million of unapproved change orders primarily related to these cost increases.

Subsequent to year end 2006, because of a continued lack of access to the project site caused by civil unrest and security issues on the Escravos River near the project site, KBR has made no significant construction progress and is currently behind schedule in testing the soil condition at the project site and is behind the scheduled construction completion plan at this time. In addition, KBR expects little, if any, construction progress will occur in the near future. As a result, KBR expects that it will incur significant additional costs, including material storage and double handling costs, increased freight costs, additional subcontractor costs, and other costs resulting from the extension of the construction period. Additionally, on-going updates to material cost estimates could result in the identification of materials price escalation and quantity growth as KBR completes engineering and procurement work.

KBR believes that future cost increases attributable to civil unrest and security should ultimately be recoverable through future change orders pursuant to the terms of the contract as amended in 2006. In addition, KBR believes that costs associated with potential differences in actual rather than anticipated soil conditions should ultimately be recoverable. The project owner may disagree with KBR's views. Other costs such as increased materials price escalation and quantity growth may or may not be recoverable through change orders.

To the extent that these increased costs are not recoverable by KBR through additional change orders or contract amendments, KBR will incur additional losses, which could be material, possibly as early as the first quarter of 2007. Even to the extent that KBR is successful in obtaining change orders for any additional costs, there could be timing differences between the recognition of such costs and recognition of offsetting potential recoveries from the client, if any. Further, until such time as the project owner provides the necessary access and security to achieve the agreed construction plan, KBR may continue to incur additional costs, which the project owner may view as nonrecoverable, and may in turn result in additional material losses thereafter. Any such losses could have a material adverse effect on KBR's results of operations and financial condition. As of February 28, 2007, the engineering and procurement on the project was approximately 67% complete and the construction was less than one percent complete.

*KBR may not be able to obtain compensation for additional work or expenses incurred as a result of customer change orders or its customers providing deficient design or engineering information or equipment or materials. Some of KBR's contracts may require that its customers provide KBR with design or engineering information or with equipment or materials to be used on the project. In some cases, the customer may provide KBR with deficient design or engineering information or equipment or materials or may provide the information or equipment or materials to KBR later than required by the project schedule. The customer may also determine, after commencement of the project, to change various elements of the project. KBR's project contracts generally require the customer to compensate KBR for additional work or expenses incurred due to customer requested change orders or failure of the customer to provide KBR with specified design or*

engineering information or equipment or materials. Under these circumstances, KBR generally negotiates with the customer with respect to the

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amount of additional time required to make these changes and the compensation to be paid to KBR. KBR is subject to the risk that it may be unable to obtain, through negotiation, arbitration, litigation or otherwise, adequate amounts to compensate it for the additional work or expenses it has incurred due to customer-requested change orders or failure by the customer to timely provide required items. A failure to obtain adequate compensation for these matters could require KBR to record an adjustment to amounts of revenue and gross profit that were recognized in prior periods. Any such adjustments, if substantial, could have a material adverse effect on its results of operations and financial condition.

*KBR may be required to pay liquidated damages upon its failure to meet schedule or performance requirements of its contracts.* In certain circumstances, KBR guarantees facility completion by a scheduled acceptance date or achievement of certain acceptance and performance testing levels. Failure to meet any such schedule or performance requirements could result in additional costs, and the amount of such additional costs could exceed projected profit margins for the project. These additional costs include liquidated damages paid under contractual penalty provisions, which can be substantial and can accrue on a daily basis. In addition, its actual costs could exceed its projections. Performance problems for existing and future contracts could cause actual results of operations to differ materially from those anticipated by KBR and could cause KBR to suffer damage to its reputation within its industry and its customer base. For example, KBR's Tangguh contract provides for substantial liquidated damages should the project not be completed and provisionally accepted by the client by a specified date. The current estimated construction schedule for the Tangguh project indicates that construction will be completed just prior to the date specified in the contract whereby liquidated damages will be incurred.

*Difficulties in engaging third party subcontractors, equipment manufacturers or materials suppliers or failures by third party subcontractors, equipment manufacturers or materials suppliers to perform could result in project delays and cause KBR to incur additional costs.* KBR generally relies on third party subcontractors as well as third party equipment manufacturers and materials suppliers to assist it with the completion of its contracts. Recently, KBR has experienced extended delivery cycles and increasing prices for various subcontracted services, equipment and materials. To the extent that KBR cannot engage subcontractors or acquire equipment or materials, its ability to complete a project in a timely fashion or at a profit may be impaired. If the amount KBR is required to pay for services, equipment and materials exceeds the amount it has estimated in bidding for fixed-price work, KBR could experience losses in the performance of these contracts. Any delay by subcontractors to complete their portion of the project, any failure by a subcontractor to satisfactorily complete its portion of the project, and other factors beyond KBR's control may result in delays in the project or may cause KBR to incur additional costs, or both. These delays and additional costs may be substantial, and KBR may not be able to recover these costs from its customer or may be required to compensate the customer for these delays. In such event, KBR may not be able to recover these additional costs from the responsible vendor, subcontractor or other third party. In addition, if a subcontractor or a manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms and timetable for any reason, including the deterioration of its financial condition, KBR may be delayed in completing the project and/or be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit or award fee to be realized or result in a loss on a project for which the services, equipment or materials were needed.

*Difficulties in estimating and execution may result in additional costs and losses.* During the fourth quarter of 2006, KBR recorded a \$12 million loss in connection with its contract to design and build a United States embassy in Skopje, Macedonia. This project was approximately 13% complete at December 31, 2006, and KBR has the balance of the construction work to complete. In December 2006, KBR also received a letter from its client, the United States Department of State, stating various concerns including KBR's delays experienced to date on this project. KBR has responded to the client's concerns including KBR's plan to make up lost

schedule. KBR could incur additional costs and losses on this project if the plan to make up lost schedule is not achieved or if material, labor or other costs incurred exceed the amounts KBR has estimated.

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*KBR's projects expose KBR to potential professional liability, product liability, warranty, performance and other claims that may exceed its available insurance coverage. KBR engineers, constructs and performs services in large industrial facilities in which accidents or system failures can be disastrous. Any catastrophic occurrences in excess of insurance limits at locations engineered or constructed by KBR or where its services are performed could result in significant professional liability, product liability, warranty and other claims against KBR. The failure of any systems or facilities that KBR engineers or constructs could result in warranty claims against it for significant replacement or reworking costs. In addition, once its construction is complete, KBR may face claims with respect to the performance of these facilities.*

***KBR could have a material weakness in its internal controls over financial reporting in the future. KBR's business may be adversely affected if it has other material weaknesses or significant deficiencies in its internal control over financial reporting in the future.***

As a public company, KBR will incur significant legal, accounting, insurance and other expenses. The Sarbanes-Oxley Act of 2002, as well as compliance with other SEC and exchange listing rules, will increase KBR's legal and financial compliance costs and make some activities more time-consuming and costly. Furthermore, SEC rules require that KBR's chief executive officer and chief financial officer periodically certify the existence and effectiveness of its internal control over financial reporting. KBR's independent registered public accounting firm will be required, beginning with its Annual Report on Form 10-K for its fiscal year ending on December 31, 2007, to attest to its assessment of its internal control over financial reporting.

During the course of KBR's testing, it may identify deficiencies that would have to be remediated to satisfy the SEC rules for certification of its internal controls over financial reporting. As a consequence, KBR may have to disclose in periodic reports it files with the SEC significant deficiencies or material weaknesses in its system of internal controls. The existence of a material weakness would preclude management from concluding that its internal control over financial reporting is effective, and would preclude its independent auditors from issuing an unqualified opinion that its internal control over financial reporting is effective. In addition, disclosures of this type in its SEC reports could cause investors to lose confidence in KBR's financial reporting and may negatively affect the trading price of its common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If KBR has deficiencies in its disclosure controls and procedures or internal control over financial reporting it may negatively impact its business, results of operations and reputation.

KBR identified and remediated a material weakness in its internal controls over financial reporting in 2006 resulting from KBR's failure to follow existing internal control policies and procedures for estimating project cost changes on the Escravos project. KBR has identified, developed and implemented a number of measures to strengthen its internal controls over financial reporting and address the material weakness that it identified. KBR could have significant deficiencies in the future and such conditions could rise to the level of a material weakness. The existence of one or more material weaknesses or significant deficiencies could result in errors in KBR's financial statements or delays in the filing of its periodic reports required by the SEC.

***KBR's government contracts work is regularly reviewed and audited by its customer, government auditors and others, and these reviews can lead to withholding or delay of payments to KBR, non-receipt of award fees, legal actions, fines, penalties and liabilities and other remedies against KBR.***

Given the demands of working in Iraq and elsewhere for the United States government, KBR expects that from time to time KBR will have disagreements or experience performance issues with its various government customers for which it works. If performance issues arise under any of its government contracts, the government retains the right to pursue remedies, which could include threatened termination or termination under any affected contract. If any

contract were so terminated, KBR may not receive award fees under the affected contract, and its ability to secure future contracts could be adversely affected, although KBR would receive payment for amounts owed for its allowable costs under cost-reimbursable contracts. Other remedies that its government customers may seek for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with its customers or

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sanctions as a result thereof could have an adverse effect on its reputation in the industry, reduce its ability to compete for new contracts, and may also have a material adverse effect on its business, financial condition, results of operations and cash flow.

*The DCAA reviews its government contracts operations and can recommend withholding payment for costs that have been incurred. Because of the scrutiny involving KBR's government contracts operations, issues raised by the DCAA may be more difficult to resolve.* KBR's operations under United States government contracts are regularly reviewed and audited by the Defense Contract Audit Agency (DCAA) and other governmental agencies. When issues are found during the governmental agency audit process, these issues are typically discussed and reviewed with KBR. The DCAA then issues an audit report with its recommendations to its customer's contracting officer. In the case of management systems and other contract administrative issues, the contracting officer is generally with the Defense Contract Management Agency (DCMA). If its customer or a government auditor finds that KBR improperly charged any costs to a contract, these costs are not reimbursable or, if already reimbursed, the costs must be refunded to the customer. The DCAA is continuously performing audits of costs incurred for the foregoing and other services provided by KBR under its government contracts. During these audits, there are likely to be questions raised by the DCAA about the reasonableness or allowability of certain costs or the quality or quantity of supporting documentation. The DCAA might recommend withholding some portion of the questioned costs while the issues are being resolved with its customer. For example, in June 2005, the DCAA recommended withholding certain costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. The DCAA recommended that the costs be withheld pending receipt of additional explanation or documentation to support the subcontract costs and \$55 million has been withheld as of December 31, 2006, of which \$17 million has been withheld from KBR's subcontractors. In addition, the DCAA has raised questions regarding \$95 million of costs related to dining facilities in Iraq. Because of the scrutiny involving KBR's government contracts operations, issues raised by the DCAA may be more difficult to resolve.

In February 2007, KBR received a letter from the Department of the Army informing KBR of the Army's intent to adjust payments under the LogCAP III contract associated with the cost incurred by KBR's subcontractors to provide security to their employees. Based on this letter, the DCAA withheld the Army's initial assessment of \$20 million. The Army based their assessment on one subcontract wherein, based on communications with the subcontractor, the Army estimated 6% of the total subcontract cost related to the private security costs. The Army indicated that not all task orders and subcontracts have been reviewed and that they may make additional adjustments. The Army indicated that, within 60 days, they intend to begin making further adjustments equal to 6% of prior and current subcontractor costs unless KBR can provide timely information sufficient to show that such action is not necessary to protect the government's interest. KBR is working with the Army to provide the additional information they have requested.

The Army indicated that they believe KBR's LogCAP III contract prohibits KBR from billing costs of its privately acquired security. KBR believes that, while LogCAP III contract anticipates that the Army will provide force protection to KBR employees, it does not prohibit any of KBR's subcontractors from using private security services to provide force protection to subcontractor personnel. In addition, a significant portion of KBR's subcontracts are competitively bid lump sum or fixed-price subcontracts. As a result, KBR does not receive details of the subcontractors' cost estimate nor is KBR legally entitled to it. Accordingly, KBR believes that it is entitled to reimbursement by the Army for the cost of services provided by its subcontractors, even if they incurred costs for private force protection services. Therefore, KBR believes that the Army's position that such costs are unallowable and that they are entitled to withhold amounts incurred for such costs is wrong as a matter of law.

If KBR is unable to demonstrate that such action by the Army is not necessary, a 6% suspension of all subcontractor costs incurred to date could result in suspended costs of approximately \$400 million. The Army has asked KBR to provide information that addresses the use of armed security either directly or indirectly charged to LogCAP III. The actual costs associated with these activities cannot be accurately measured at this time. As of December 31, 2006, no

amounts have been accrued for suspended security billings.



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*If the DCMA were to conclude that KBR's accounting system was not adequate for U.S. government cost reimbursement contracts, KBR's ability to be awarded new contracts would be materially and adversely affected.* KBR's accounting system is currently approved by the DCMA's contracting officer for cost reimbursement contracts. KBR has received two draft reports from the DCAA on KBR's accounting system, which raised various issues and questions. KBR has responded to the points raised by the DCAA, but this review remains open. In the fourth quarter of 2006, the DCAA finalized its report and submitted it to the DCMA, who will make a determination of the adequacy of KBR's accounting systems for government contracting. KBR has prepared an action plan considering the DCAA recommendations and continue to meet with these agencies to discuss the ultimate resolution. If the DCMA were to conclude that its accounting system was not adequate for U.S. government cost reimbursement contracts, its ability to be awarded new contracts would be materially and adversely affected. In addition, negative publicity regarding alleged accounting system inadequacies or findings arising out of DCAA and DCMA reviews may adversely affect KBR's ability to attract and obtain other government and commercial contracts.

*If it is determined that KBR has liability as a result of investigations into its work in Iraq, Kuwait and Afghanistan, it could have a material adverse effect on KBR's results of operations and cash flow.* KBR understands that the United States Department of Justice (DOJ), an Assistant United States Attorney based in Illinois, and others are investigating these and other individually immaterial matters KBR has reported relating to its government contract work in Iraq. KBR has also received and is cooperating and intends to cooperate with the DOJ and the Defense Criminal Investigative Service with respect to subpoenas and requests for information by those agencies. If criminal wrongdoing is found, criminal penalties could range up to the greater of \$500,000 in fines per count for a corporation or twice the gross pecuniary gain or loss. KBR also understands that current and former employees of KBR have received subpoenas and have given or may give grand jury testimony related to some of these matters.

The House Oversight and Government Reform Committee has conducted hearings on the United States military's reliance on civilian contractors, including with respect to military operations in Iraq. KBR has provided testimony and information for these hearings. KBR expects hearings with respect to operations in Iraq to continue in this and other Congressional committees, including the House Armed Services Committee, and KBR expects to be asked to testify and provide information for these hearings.

KBR also provided information to the DoD Inspector General's office in February 2004 about other contacts between former employees and KBR's subcontractors. In the first quarter of 2005, the U.S. Department of Justice (DOJ) issued two indictments associated with overbilling issues KBR previously reported to the Department of Defense Inspector General's office as well as to KBR's customer, the Army Materiel Command, against a former KBR procurement manager and a manager of La Nouvelle Trading & Contracting Company, W.L.L. In March 2006, one of these former employees pled guilty to taking money in exchange for awarding work to a Saudi Arabian subcontractor. The Inspector General's investigation of these matters may continue.

In October 2004, KBR reported to the DoD Inspector General's office that two former employees in Kuwait may have had inappropriate contacts with individuals employed by or affiliated with two third party subcontractors prior to the award of the subcontracts. The Inspector General's office may investigate whether these two employees may have solicited and/or accepted payments from those third party subcontractors while they were employed by KBR.

In October 2004, a civilian contracting official in the COE asked for a review of the process used by the COE for awarding some of the contracts to KBR. KBR understands that the DoD Inspector General's office may review the issues involved.

If KBR was determined to have liability as a result of any of these investigations, it could have a material adverse effect on KBR's results of operations and cash flow.

*KBR may be subject to qui tam actions filed by former employees for alleged wrongdoings relating to KBR's LogCAP contracts. In the past, KBR became aware of qui tam actions filed against it by former employees alleging various wrongdoings in the form of overbillings of KBR's customers on KBR's LogCAP*

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contracts and expects that it may be subject to similar actions in the future. These cases typically are filed pending the government's decision whether or not to participate in the suit.

*To the extent that KBR exports products, technical data and services outside the United States, KBR is subject to United States laws and regulations governing international trade and exports, including but not limited to the International Traffic in Arms Regulations, the Export Administration Regulations and trade sanctions against embargoed countries, which are administered by the Office of Foreign Assets Control within the Department of the Treasury. A failure to comply with these laws and regulations could result in civil and/or criminal sanctions, including the imposition of fines upon KBR as well as the denial of export privileges and debarment from participation in U.S. government contracts.*

From time to time, KBR identifies certain inadvertent or potential export or related violations. These violations may include, for example, transfers without required governmental authorizations. Although KBR does not currently anticipate that any past export practice will have a material adverse effect on its business, financial condition or results of operations, KBR can give no assurance as to whether it will ultimately be subject to sanctions as a result of such practices or the disclosure thereof, or the extent or effect thereof, if any sanctions are imposed, or whether individually or in the aggregate such practices or the disclosure thereof will have a material adverse effect on KBR's business, financial condition or results of operations.

KBR continues to enhance its export control procedures and educate its executives and other employees who manage its exports concerning the requirements of applicable United States law. An effective control system regarding these matters is among KBR's highest priorities. Nonetheless, a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met or that all violations have been or will be detected.

KBR has reported to the United States Department of State and Department of Commerce that exports of materials, including personal protection equipment such as helmets, goggles, body armor and chemical protective suits, in connection with personnel deployed to Iraq and Afghanistan may not have been in accordance with current licenses or may have been unlicensed. A determination that KBR has failed to comply with one or more of these export controls could result in civil and/or criminal sanctions, including the imposition of fines upon KBR as well as the denial of export privileges and debarment from participation in U.S. government contracts. Any one or more of such sanctions could have a material adverse effect on KBR's business, financial condition or results of operations.

***KBR is involved in a dispute with Petrobras with respect to responsibility for the failure of subsea flow-line bolts on the Barracuda-Caratinga project.***

In June 2000, KBR entered into a contract with Barracuda & Caratinga Leasing Company B.V., the project owner, to develop the Barracuda and Caratinga crude oilfields, which are located off the coast of Brazil. The construction manager and project owner's representative is Petrobras, the Brazilian national oil company. The project consists of two converted supertankers, Barracuda and Caratinga, which are being used as floating production, storage, and offloading units, commonly referred to as FPSOs.

At Petrobras' direction, KBR has replaced certain bolts located on the subsea flow-lines that have failed through mid-November 2005, and KBR understands that additional bolts have failed thereafter, which have been replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. The original design specification for the bolts was issued by Petrobras, and as such, KBR believes the cost resulting from any replacement is not its responsibility. Petrobras has indicated, however, that they do not agree with KBR's conclusion. KBR has notified Petrobras that this matter is in dispute. KBR believes several possible solutions may exist, including replacement of the bolts. Estimates indicate that costs of these various solutions range up to \$140 million. Should

Petrobras instruct KBR to replace the subsea bolts, the prime contract terms and conditions regarding change orders require that Petrobras make progress payments of KBR's reasonable costs incurred. Petrobras could, however, perform any replacement of the bolts and seek reimbursement from KBR. On March 9, 2006, Petrobras notified KBR that it has submitted this matter to arbitration claiming \$220 million plus interest for the cost of monitoring and replacing the defective bolts and, in addition, all of the costs and expenses of the arbitration including the cost of attorneys fees. KBR disagrees

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with Petrobras' claim, since the bolts met Petrobras' design specifications, and KBR does not believe there is any basis for the amount claimed by Petrobras. KBR intends to vigorously defend this matter and pursue recovery of the costs KBR has incurred to date through the arbitration process. Consequences of this matter could have a material adverse effect on KBR's results of operations, financial condition and cash flow.

***Halliburton's indemnity for matters relating to the Barracuda-Caratinga project only applies to the replacement of certain subsea bolts, and Halliburton's actions may not be in the best interests of KBR's stockholders.***

Under the terms of the master separation agreement, Halliburton agreed to indemnify KBR and any of KBR's greater than 50%-owned subsidiaries as of November 20, 2006 for out-of-pocket cash costs and expenses, or cash settlements or cash arbitration awards in lieu thereof, KBR incurs as a result of the replacement of certain subsea flow-line bolts installed in connection with the Barracuda-Caratinga project described in the immediately preceding risk factor, which is referred to as B-C Matters. Please read *KBR is involved in a dispute with Petrobras with respect to responsibility for the failure of subsea flow-line bolts on the Barracuda-Caratinga project.*

Halliburton's indemnity will not apply to any other losses, claims, liabilities or damages against KBR relating to B-C Matters. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions Master Separation Agreement Indemnification Barracuda-Caratinga Indemnification.* If, either before or after a settlement or disposition of B-C Matters, KBR incurs losses relating to the Barracuda-Caratinga project for which Halliburton's indemnity will not apply, KBR may not have the liquidity or funds to address those losses, in which case such losses could have a material adverse effect on KBR's business, prospects, results of operations, financial condition and cash flow.

At KBR's cost, KBR will control the defense, counterclaim and/or settlement with respect to B-C Matters, but Halliburton will have discretion to determine whether to agree to any settlement or other resolution of B-C Matters. KBR expects Halliburton will take actions that are in the best interests of its stockholders, which may or may not be in the best interests of KBR or its stockholders. Halliburton has the right to assume control over the defense, counterclaim and/or settlement of B-C Matters at any time. If Halliburton assumes control over the defense, counterclaim and/or settlement of B-C Matters, or refuses a settlement proposed by KBR, it could result in material and adverse consequences to KBR and/or KBR's business that would not be subject to Halliburton's indemnification. In addition, if Halliburton assumes control over the defense, counterclaim and/or settlement of B-C Matters, and KBR refuses a settlement proposed by Halliburton, Halliburton may terminate the indemnity. Also, if KBR materially breaches its obligation to cooperate with Halliburton or KBR enters into a settlement of B-C Matters without Halliburton's consent, Halliburton may terminate the indemnity.

***KBR is actively engaged in claims negotiations with some of its customers, and a failure to successfully resolve its unapproved claims may materially and adversely impact its results of operations.***

KBR reports revenue from contracts to provide construction, engineering, design or similar services under the percentage-of-completion method of accounting. The recording of profits and losses on long-term contracts requires an estimate of the total profit or loss over the life of each contract. Total estimated profit is calculated as the difference between total estimated contract value and total estimated costs. When calculating the amount of total profit or loss, KBR includes unapproved claims as contract value when the collection is deemed probable based upon the four criteria for recognizing unapproved claims under the American Institute of Certified Public Accountants Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* Including probable unapproved claims in this calculation increases the operating income (or reduces the operating loss) that would otherwise be recorded without consideration of the probable unapproved claims.

KBR is actively engaged in claims negotiations with some of its customers, and the success of claims negotiations has a direct impact on the profit or loss recorded for any related long-term contract. Unsuccessful claims negotiations could result in decreases in estimated contract profits or additional contract losses. As of

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December 31, 2006, KBR's probable unapproved claims, including those from unconsolidated related companies, related to eight contracts, most of which are complete or substantially complete. A significant portion of KBR's probable unapproved claims as of December 31, 2006 arose from three completed projects for Petroleos Mexicanos (PEMEX) (\$148 million related to its consolidated entities and \$45 million related to its unconsolidated related companies) that are currently subject to arbitration proceedings. In addition, KBR has Other assets of \$64 million for previously approved services that are unpaid by PEMEX and have been included in these arbitration proceedings. The arbitration proceedings are expected to extend through the remainder of 2007. Unfavorable outcomes for KBR in these arbitration proceedings could have a material adverse effect on its results of operations. In addition, even if the outcomes of these proceedings are favorable to KBR, there can be no assurance that KBR will ultimately be able to collect the amounts owed by PEMEX. In addition, as of December 31, 2006, KBR had \$36 million of probable unapproved claims relating to its LogCAP III contract and \$43 million of unapproved change orders relating to the Escravos project. Please read Notes 5, 6 and 14 to the consolidated financial statements of KBR, Inc. included elsewhere in this Prospectus-Offer to Exchange.

## **Risks Relating to Investigations**

***The SEC and the DOJ are investigating the actions of agents in foreign projects in light of the requirements of the United States Foreign Corrupt Practices Act, and the results of these investigations could have a material adverse effect on KBR's business, prospects, results of operations, financial condition and cash flow.***

The SEC is conducting a formal investigation into whether improper payments were made to government officials in Nigeria through the use of agents or subcontractors in connection with the construction and subsequent expansion by TSKJ, a joint venture in which one of KBR's subsidiaries (a successor to The M.W. Kellogg Company) had an approximate 25% interest at December 31, 2006, of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The DOJ is also conducting a related criminal investigation. The SEC has also issued subpoenas seeking information, which Halliburton is furnishing, regarding current and former agents used in connection with multiple projects, including current and prior projects, over the past 20 years located both in and outside of Nigeria in which KBR, The M.W. Kellogg Company, M.W. Kellogg Limited or their or its joint ventures are or were participants. The SEC and the DOJ have been reviewing these matters in light of the requirements of the FCPA. Please read Business of KBR Legal Proceedings FCPA Investigations for more information.

Halliburton has been investigating these matters and has been cooperating with the SEC and the DOJ investigations and with other investigations into the Bonny Island project in France, Nigeria and Switzerland. Halliburton believes that the Serious Frauds Office in the United Kingdom is conducting an investigation relating to the Bonny Island project. As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. Halliburton has reason to believe that, based on the ongoing investigations, payments may have been made by agents of TSKJ to Nigerian officials. In addition, information uncovered in the summer of 2006 suggests that, prior to 1998, plans may have been made by employees of The M.W. Kellogg Company to make payments to government officials in connection with the pursuit of a number of other projects in countries outside of Nigeria. Halliburton is reviewing a number of recently discovered documents related to KBR's activities in countries outside of Nigeria with respect to agents for projects after 1998. Certain of the activities discussed in this paragraph involve current or former employees or persons who were or are consultants to KBR, and the investigation continues. Additionally, in 2006, Halliburton suspended the services of an agent that, until such suspension, had worked for KBR on projects outside of Nigeria on several current projects and on numerous older projects going back to the early 1980s, and Halliburton suspended the services of an additional agent on a separate current Nigerian project.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to \$500,000 per violation, equitable remedies, including disgorgement (if applicable) generally of profits, including prejudgment interest on such profits, causally connected to the violation, and injunctive relief. Criminal penalties could range up to the greater of \$2 million per violation or twice the gross pecuniary



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gain or loss from the violation, which could be substantially greater than \$2 million per violation. It is possible that both the SEC and the DOJ could assert that there have been multiple violations, which could lead to multiple fines. The amount of any fines or monetary penalties which could be assessed would depend on, among other factors, the findings regarding the amount, timing, nature and scope of any improper payments, whether any such payments were authorized by or made with knowledge of KBR or its affiliates, the amount of gross pecuniary gain or loss involved, and the level of cooperation provided to the government authorities during the investigations. Agreed dispositions of these types of violations also frequently result in an acknowledgement of wrongdoing by the entity and the appointment of a monitor on terms negotiated with the SEC and the DOJ to review and monitor current and future business practices, including the retention of agents, with the goal of assuring compliance with the FCPA. Other potential consequences could be significant and include suspension or debarment of KBR's ability to contract with governmental agencies of the United States and of foreign countries.

The investigations by the SEC and DOJ and foreign governmental authorities are continuing. KBR does not expect these investigations to be concluded in the immediate future. The various governmental authorities could conclude that violations of the FCPA or applicable analogous foreign laws have occurred with respect to the Bonny Island project and other projects in or outside of Nigeria. In such circumstances, the resolution or disposition of these matters, even after taking into account the indemnity from Halliburton with respect to any liabilities for fines or other monetary penalties or direct monetary damages, including disgorgement, that may be assessed against KBR or its greater than 50%-owned subsidiaries by the U.S. or foreign governmental authorities in the United Kingdom, France, Nigeria, Switzerland or Algeria relating to FCPA matters, could have a material adverse effect on KBR's business, prospects, results of operations, financial condition and cash flow. Please read *Halliburton's indemnity for Foreign Corrupt Practices Act matters does not apply to all potential losses, Halliburton's actions may not be in the best interests of KBR's stockholders and KBR may take or fail to take actions that could result in its indemnification from Halliburton with respect to Foreign Corrupt Practices Act matters no longer being available.*

***Information has been uncovered suggesting that former employees may have engaged in coordinated bidding with one or more competitors on certain foreign construction projects.***

In connection with the investigation into payments relating to the Bonny Island project in Nigeria, information has been uncovered suggesting that former employees may have engaged in coordinated bidding with one or more competitors on certain foreign construction projects and that such coordination possibly began as early as the mid-1980s.

On the basis of this information, Halliburton and the DOJ have broadened their investigations to determine the nature and extent of any improper bidding practices, whether such conduct violated United States antitrust laws, and whether former employees may have received payments in connection with bidding practices on some foreign projects.

If violations of applicable United States antitrust laws occurred, the range of possible penalties includes criminal fines, which could range up to the greater of \$10 million in fines per count for a corporation, or twice the gross pecuniary gain or loss, and treble civil damages in favor of any persons financially injured by such violations. Criminal prosecutions under applicable laws of relevant foreign jurisdictions and civil claims by, or relationship issues with customers, are also possible.

Halliburton's indemnity does not apply to liabilities, if any, for fines, other monetary penalties or other potential losses arising out of violations of United States antitrust laws.

***Potential consequences arising out of the investigations into FCPA matters and antitrust matters could include suspension or debarment of KBR's ability to contract with the United States, state or local governments, U.S. government agencies or the MoD, third party claims, loss of business, adverse financial impact, damage to***

*reputation and adverse consequences on financing for current or future projects.*

Potential consequences of a criminal indictment arising out of any of the investigations into FCPA matters and antitrust matters could include suspension of KBR's ability to contract with the United States, state or

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local governments, U.S. government agencies or the MoD in the United Kingdom. If a criminal or civil violation were found, KBR and its affiliates could be debarred from future contracts or new orders under current contracts to provide services to any such parties. During 2006, KBR had revenue of \$5.8 billion from its government contracts work with agencies of the United States or state or local governments. In addition, KBR may be excluded from bidding on MoD contracts in the United Kingdom if KBR is convicted of a corruption offense or if the MoD determines that KBR's actions constituted grave misconduct. During 2006, KBR had revenue of \$1.0 billion from its government contracts work with the MoD. Suspension or debarment from the government contracts business would have a material adverse effect on KBR's business, results of operations and cash flow.

These investigations could also result in (1) third party claims against KBR, which may include claims for special, indirect, derivative or consequential damages, (2) damage to KBR's business or reputation, (3) loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business, prospects, profits or business value, (4) adverse consequences on KBR's ability to obtain or continue financing for current or future projects and/or (5) claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders or other interest holders or constituents of KBR. In connection with the French investigation into the Bonny Island project, KBR understands that the government of Nigeria gave notice in 2004 to the French magistrate of a civil claim as an injured party in that proceeding. In addition, KBR's compliance procedures or having a monitor required or agreed to be appointed at its cost as part of the disposition of the investigations could result in a more limited use of agents on large-scale international projects than in the past and put KBR at a competitive disadvantage in pursuing such projects. Continuing negative publicity arising out of these investigations could also result in KBR's inability to bid successfully for governmental contracts and adversely affect its prospects in the commercial marketplace. If KBR incurs costs or losses as a result of these matters, KBR may not have the liquidity or funds to address those losses, in which case such losses could have a material adverse effect on KBR's business, prospects, results of operations, financial condition and cash flow.

***Halliburton's indemnity for Foreign Corrupt Practices Act matters does not apply to all potential losses, Halliburton's actions may not be in the best interests of KBR's stockholders and KBR may take or fail to take actions that could result in its indemnification from Halliburton with respect to Foreign Corrupt Practices Act matters no longer being available.***

Under the terms of the master separation agreement entered into in connection with KBR's initial public offering, Halliburton has agreed to indemnify KBR for, and any of KBR's greater than 50%-owned subsidiaries as of November 20, 2006 for KBR's share of, fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of claims made or assessed by a governmental authority of the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria or a settlement thereof relating to FCPA Matters, which could involve Halliburton and KBR through The M. W. Kellogg Company, M. W. Kellogg Limited or their or KBR's joint ventures in projects both in and outside of Nigeria, including the Bonny Island, Nigeria project. Halliburton's indemnity will not apply to any other losses, claims, liabilities or damages assessed against KBR as a result of or relating to FCPA Matters or to any fines or other monetary penalties or direct monetary damages, including disgorgement, assessed by governmental authorities in jurisdictions other than the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria, or a settlement thereof, or assessed against entities such as TSKJ or Brown & Root Condor Spa, in which KBR does not have an interest greater than 50%. For purposes of the indemnity, FCPA Matters include claims relating to alleged or actual violations occurring prior to the date of the master separation agreement, of the FCPA or particular, analogous applicable statutes, laws, regulations and rules of U.S. and foreign governments and governmental bodies identified in the master separation agreement in connection with the Bonny Island project in Nigeria and in connection with any other project, whether located inside or outside of Nigeria, including without limitation the use of agents in connection with such projects, identified by a governmental authority of the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria in connection with the investigations in those jurisdictions specified in the master separation agreement. Please read Agreements Between

Halliburton and KBR and Other Related Party Transactions Master Separation Agreement Indemnification FCPA  
Indemnification and Enforceability of Halliburton FCPA Indemnification.

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Either before or after a settlement or disposition of FCPA Matters, KBR could incur losses as a result of or relating to FCPA Matters for which Halliburton's indemnity will not apply, and KBR may not have the liquidity or funds to address those losses, in which case such losses could have a material adverse effect on KBR's business, prospects, results of operations, financial condition and cash flow.

In consideration of Halliburton's agreement to indemnify KBR for certain FCPA Matters, KBR has agreed that Halliburton will at all times, in its sole discretion, have and maintain control over the investigation, defense and/or settlement of FCPA Matters until such time, if any, that KBR exercises its right to assume control of the investigation, defense and/or settlement of FCPA Matters. KBR has also agreed, at Halliburton's expense, to assist with Halliburton's full cooperation with any governmental authority in Halliburton's investigation of FCPA Matters and its investigation, defense and/or settlement of any claim made by a governmental authority or court relating to FCPA Matters, in each case even if KBR assumes control of FCPA Matters.

Subject to the exercise of KBR's right to assume control of the investigation, defense and/or settlement of FCPA Matters, Halliburton will have broad discretion to investigate and defend FCPA Matters. After Halliburton's disposition of KBR's common stock that it owns, KBR expects that Halliburton will take actions that are in the best interests of its stockholders, which may not be in the best interests of KBR or its stockholders, particularly in light of the potential differing interests that Halliburton and KBR may have with respect to the matters currently under investigation and their defense and/or settlement. In addition, the manner in which Halliburton controls the investigation, defense and/or settlement of FCPA Matters and KBR's ongoing obligation to cooperate with Halliburton in its investigation, defense and/or settlement thereof could adversely affect KBR and its ability to defend or settle FCPA or other claims against it, or result in other adverse consequences to KBR or its business that would not be subject to Halliburton's indemnification. KBR may take control over the investigation, defense and/or settlement of FCPA Matters or KBR may refuse to agree to a settlement of FCPA Matters negotiated by Halliburton.

Notwithstanding KBR's decision, if any, to assume control or refuse to agree to a settlement of FCPA Matters, KBR will have a continuing obligation to assist in Halliburton's full cooperation with any government or governmental agency, which may reduce any benefit of KBR taking control over the investigation of FCPA Matters or refusing to agree to a settlement. If KBR takes control over the investigation, defense and/or settlement of FCPA Matters, refuses a settlement of FCPA Matters negotiated by Halliburton, enters into a settlement of FCPA Matters without Halliburton's consent, materially breaches its obligation to cooperate with respect to Halliburton's investigation, defense and/or settlement of FCPA Matters or materially breaches its obligation to consistently implement and maintain, for five years following its separation from Halliburton, currently adopted business practices and standards relating to the use of foreign agents, Halliburton may terminate the indemnity, which could have a material adverse effect on KBR's financial condition, results of operations and cash flow.

***KBR's indemnification from Halliburton for FCPA Matters may not be enforceable as a result of being against governmental policy.***

KBR's indemnification from Halliburton relating to FCPA Matters may not be enforceable as a result of being against governmental policy. Under the indemnity with Halliburton, KBR's share of any liabilities for fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of U.S. or certain foreign governmental claims or assessments relating to FCPA Matters would be funded by Halliburton and would not be borne by KBR and its public stockholders. If KBR is assessed by or agrees with U.S. or certain foreign governments or governmental agencies to pay any such fines, monetary penalties or direct monetary damages, including disgorgement, and Halliburton's indemnity cannot be enforced or is unavailable because of governmental requirements of a settlement, KBR may not have the liquidity or funds to pay those penalties or damages, which would have a material adverse effect on KBR's business, prospects, results of operations, financial condition and cash flow. Please read

*Halliburton's indemnity for Foreign Corrupt Practices Act matters does not apply to all potential losses,*

*Halliburton's actions may not be in the best interests of KBR's stockholders and KBR may take or fail to take actions that could result in its indemnification from Halliburton with respect to Foreign Corrupt Practices Act matters no longer being available,* Agreements Between Halliburton and KBR and Other Related Party Transactions Master Separation

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Agreement Indemnification FCPA Indemnification and Enforceability of Halliburton FCPA Indemnification.

**Other Risks Relating to KBR**

*KBR experiences increased working capital requirements from time to time associated with its business, and such an increased demand for working capital could adversely affect its ability to meet its liquidity needs.*

KBR's operations could require it to utilize large sums of working capital, sometimes on short notice and sometimes without the ability to completely recover the expenditures on a timely basis or at all. Circumstances or events which could create large cash outflows for KBR include, among others, losses resulting from fixed-price contracts; contract initiation costs, contract completion cost or delays in receipt of payments under its contracts; environmental liabilities; litigation costs; adverse political conditions; foreign exchange risks; and professional and product liability claims. If KBR encounters significant working capital requirements or cash outflows as a result of these or other factors, KBR may not have sufficient liquidity or the credit capacity to meet all of its cash needs.

Insufficient liquidity could have important consequences to KBR. For example, KBR could:

have more difficulty in providing sufficient working capital under contracts such as LogCAP that may require a substantial and immediate ramp up in operations without immediate reimbursement; and

have less success in obtaining new work if its sureties or its lenders were to limit KBR's ability to provide new performance bonds or letters of credit for its projects.

All or any of the following liquidity matters, working capital demands or limitations under KBR's credit facility could place KBR at a competitive disadvantage compared with competitors with more liquidity and could have a material adverse effect on its business, prospects, results of operations, financial condition and cash flow.

*Demobilization from Iraq could require funding of substantial working capital expenses without timely reimbursement.* Demobilization of the United States military or its personnel from Iraq would require KBR to utilize large sums of working capital to move personnel and equipment from Iraq. If the DoD does not immediately approve funding for such a demobilization, KBR could be required to fund the related working capital expenses without reimbursement on a timely basis.

*KBR cannot rely on Halliburton to meet its liquidity needs or provide future credit support for required bonds, letters of credit, performance guarantees and other credit enhancement instruments, except to the extent Halliburton has agreed to do so under the terms of the master separation agreement.* Prior to its initial public offering, KBR relied upon Halliburton to fund its working capital demands and assist KBR in meeting its liquidity needs, thereby providing KBR with a reliable source of cash, liquidity and credit support enhancements even in unusual or unexpected circumstances. KBR is no longer able to rely on Halliburton to meet future needs, except to the extent of credit support instruments outstanding at the completion of KBR's initial public offering and to the limited extent Halliburton has agreed to provide additional guarantees, indemnification and reimbursement commitments for KBR's benefit in connection with letters of credit, surety bonds and performance guarantees related to certain of KBR's existing project contracts as provided for in the master separation agreement. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions Master Separation Agreement Credit Support Instruments*. KBR has obtained a limited amount of surety capacity and is currently engaged in discussions with surety companies to obtain additional capacity. KBR's efforts to obtain this additional stand-alone bonding capacity may not be successful. KBR can provide no assurance that it will have sufficient working capital or surety support to allow it to secure large-scale contracts or satisfy contract performance specifications.

*KBR's revolving credit facility imposes restrictions that limit its operating flexibility and may result in additional expenses, and this credit facility will not be available if financial covenants are not met or if an event of default occurs.* In December 2005, KBR entered into a five-year, unsecured revolving credit facility



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that provides up to \$850 million of borrowings and letters of credit. This facility serves to assist KBR in providing working capital and letters of credit for its projects. The revolving credit facility contains a number of covenants restricting KBR from, among other things, incurrence of additional indebtedness and liens, sales of KBR's assets, the amount of investments KBR can make, and dividends. KBR is also subject to certain financial covenants, including maintenance of ratios with respect to consolidated debt to total consolidated capitalization, leverage and fixed charge coverage. If KBR fails to meet the covenants or an event of default occurs, KBR would not have available the liquidity that the facility provides. Please read *It is an event of default under KBR's \$850 million revolving credit facility if a person other than Halliburton or KBR directly or indirectly acquires 25% or more of the ordinary voting equity interests of the borrower under the credit facility.* Any future credit facilities would also likely contain similar covenants.

In addition, under KBR's existing revolving credit facility, and potentially under any future credit facilities, KBR will be required to incur increased lending fees, costs and interest rates and, if future borrowings were to occur, to dedicate a substantial portion of cash flow from operations to the repayment of debt and the interest associated with that debt.

***KBR conducts a large portion of its engineering and construction operations through joint ventures. As a result, KBR may have limited control over decisions and controls of joint venture projects and have returns that are not proportional to the risks and resources KBR contributes.***

KBR conducts a large portion of its engineering and construction operations through joint ventures, where control may be shared with unaffiliated third parties. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. KBR also cannot control the actions of its joint venture partners, including any nonperformance, default, or bankruptcy of its joint venture partners, and KBR typically has joint and several liability with its joint venture partners under these joint venture arrangements. These factors could potentially materially and adversely affect the business and operations of a joint venture and, in turn, KBR's business and operations.

Operating through joint ventures in which KBR is a minority holder results in KBR having limited control over many decisions made with respect to projects and internal controls relating to projects. These joint ventures may not be subject to the same requirements regarding internal controls and internal control reporting that KBR follows. As a result, internal control issues may arise, which could have a material adverse effect on KBR's financial condition and results of operation. When entering into joint ventures, in order to establish or preserve relationships with its joint venture partners, KBR may agree to risks and contributions of resources that are proportionately greater than the returns KBR could receive, which could reduce its income and returns on these investments compared to what KBR would have received if the risks and resources KBR contributed were always proportionate to its returns.

KBR has recently been notified by Sonatrach, a joint venture partner in Brown & Root Condor Spa (BRC), that it wishes to dissolve the joint venture. In addition, BRC has recently experienced a decline in new work awarded from various sources including Sonatrach, and Sonatrach has recently canceled work previously awarded to BRC. A deterioration in BRC's cash flow as a result of the cancellations and decline in work may cause KBR's investment in BRC to be impaired. KBR estimates its exposure could be up to \$18 million, and an impairment could be required as early as the first quarter of 2007.

***KBR makes equity investments in privately financed projects on which KBR has sustained losses and could sustain additional losses.***

KBR participates in privately financed projects that enable its government customers to finance large-scale projects, such as railroads, and major military equipment purchases. These projects typically include the facilitation of non-recourse financing, the design and construction of facilities, and the provision of operation and maintenance

services for an agreed to period after the facilities have been completed.

KBR may incur contractually reimbursable costs and typically makes an equity investment prior to an entity achieving operational status or completing its full project financing. If a project is unable to obtain financing, KBR could incur losses including its contractual receivables and its equity investment. After

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completion of these projects, KBR's equity investments can be at risk, depending on the operation of the project, which may not be under its control. As a result, KBR could sustain a loss on its equity investment in these projects. Current equity investments of this type include the Alice Springs-Darwin railroad in Australia and the Allenby & Connaught project in the United Kingdom.

With respect to the Alice Springs-Darwin railroad project, KBR owns a 36.7% interest in a joint venture that is the holder of a 50-year concession contract with the Australian government to operate and maintain the railway. KBR accounts for this investment using the equity method of accounting in its G&I segment. This joint venture has sustained losses since commencing operations due to lower than anticipated freight volume and a slowdown in the planned expansion of the Port of Darwin. At the end of the first quarter of 2006, the joint venture's revised financial forecasts led KBR to record a \$26 million impairment charge. At that time, the joint venture engaged investment bankers in an effort to raise additional capital for the venture. At the end of the second quarter of 2006, KBR's valuation of its investment took into consideration the bids tendered at that time by interested parties, and no further impairment was evident. However, the efforts to raise additional capital ceased during the third quarter because all previous bids were subsequently rejected or withdrawn. In October 2006, the joint venture incurred an event of default under its loan agreement by failing to make an interest and principal payment. These loans are non-recourse to KBR. In light of the default and the realization that the joint venture efforts to raise additional equity from third parties was not successful, KBR recorded an additional \$32 million impairment charge in the third quarter of 2006. KBR will receive no tax benefit as this impairment charge is not deductible for Australian tax purposes. In December 2006, the senior lenders agreed to waive existing defaults and concede certain rights under the existing indenture. Among these were a reduction in the joint venture's debt service reserve and the relinquishment of the right to receive principal payments for 27 months, through March 2009. In exchange for these concessions, the shareholders of the joint venture committed approximately \$12 million of new subordinated financing, of which \$6 million was committed by KBR. At December 31, 2006, KBR's investment in this joint venture was \$6 million. KBR's \$6 million additional funding commitment was still outstanding.

KBR has an investment in a development corporation that has an indirect interest in the new Egypt Basic Industries Corporation (EBIC) ammonia plant project located in Egypt. KBR is performing the EPC work for the project and providing operations and maintenance services for the facility. In August 2006, the lenders providing the construction financing notified EBIC that it was in default of the terms of its debt agreement, which effectively prevents the project from making additional borrowings until such time as certain security interests in the ammonia plant assets related to the export facilities could be perfected. Indebtedness under the debt agreement is non-recourse to KBR. This default was cured on December 8, 2006 subject to EBIC's submission and the lender's acceptance of the remaining documents in March 2007. No event of default has occurred pursuant to its EPC contract as KBR has been paid all amounts due from EBIC. In September 2006, KBR was instructed by EBIC to cease work on one location of the project on which the ammonia storage tanks were originally planned to be constructed due to a decision to relocate the tanks. The new location has been selected and the client and its lenders have agreed to compensate KBR for approximately \$6 million in costs resulting from the relocation of the storage tanks. KBR resumed work on the ammonia tanks in February 2007.

***If Halliburton's anticipated disposition of its KBR common stock pursuant to the exchange offer and any subsequent spin-off distribution is determined to be financially detrimental to KBR's United Kingdom pension plans in meeting their funding liabilities, it may be necessary for KBR to purchase annuities to secure the pension plan benefits or fund some or all of the deficits either in a lump sum or over an agreed period.***

Under regulations applicable to pension plans maintained for the benefit of KBR's employees in the United Kingdom, the disposition by Halliburton of its KBR common stock pursuant to the exchange offer and any subsequent spin-off distribution could constitute an event for which it would be advisable to obtain clearance from the Pensions Regulator in the United Kingdom if it were determined to be a change of control that is financially detrimental to the ability of a

United Kingdom pension plan to meet its funding liabilities. In such event, should KBR fail to obtain clearance, the Pensions Regulator could issue a contribution notice,

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which could impose liability on an employer of an amount equal to the cost of securing all of the pension plan beneficiaries' benefits by the purchase of annuities. As an alternative to obtaining clearance from the Pensions Regulator, KBR could agree with the trustee of some or all of the pension plans to provide additional security to the plans satisfactory to such trustees, which would not provide the same certainty as obtaining clearance, but may reduce the risk of receiving a contribution notice from the Pensions Regulator. While no determination has been made at this time as to the action, if any, that would be taken, if clearance were sought from the Pensions Regulator or an agreement was negotiated with the trustees for the United Kingdom pension plans, it may be necessary for KBR to fund some or all of the deficits under the United Kingdom pension plans, either in a lump sum or over an agreed period. Because the funding status of KBR's United Kingdom pension plans are dependent on future events and circumstances and actuarial assumptions, KBR cannot estimate the range of exposure at this time.

***Intense competition in the engineering and construction industry could reduce KBR's market share and profits.***

KBR serves markets that are highly competitive and in which a large number of multinational companies compete. These highly competitive markets require substantial resources and capital investment in equipment, technology and skilled personnel whether the projects are awarded in a sole source or competitive bidding process. KBR's projects are frequently awarded through a competitive bidding process, which is standard in its industry. KBR is constantly competing for project awards based on pricing and the breadth and technological sophistication of its services. Any increase in competition or reduction in its competitive capabilities could have a significant adverse impact on the margins KBR generates from its projects or its ability to retain market share.

***If KBR is unable to attract and retain a sufficient number of affordable trained engineers and other skilled workers, its ability to pursue projects may be adversely affected and its costs may increase.***

KBR's rate of growth will be confined by resource limitations as competitors and customers compete for increasingly scarce resources. KBR believes that its success depends upon its ability to attract, develop and retain a sufficient number of affordable trained engineers and other skilled workers that can execute its services in remote locations under difficult working conditions. The demand for trained engineers and other skilled workers is currently high. If KBR is unable to attract and retain a sufficient number of skilled personnel, its ability to pursue projects may be adversely affected and the costs of performing its existing and future projects may increase, which may adversely impact its margins.

***If KBR is unable to enforce its intellectual property rights or if its intellectual property rights become obsolete, its competitive position could be adversely impacted.***

KBR utilizes a variety of intellectual property rights in its services. KBR views its portfolio of process and design technologies as one of its competitive strengths and KBR uses it as part of its efforts to differentiate its service offerings. KBR may not be able to successfully preserve these intellectual property rights in the future and these rights could be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which its services may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Because KBR licenses technologies from third parties, there is a risk that its relationships with licensors may terminate or expire or may be interrupted or harmed. In some, but not all cases, KBR may be able to obtain the necessary intellectual property rights from alternative sources. If KBR is unable to protect and maintain its intellectual property rights, or if there are any successful intellectual property challenges or infringement proceedings against KBR, its ability to differentiate its service offerings could be reduced. In addition, if its intellectual property rights or work processes become obsolete, KBR may not be able to differentiate its service offerings, and some of its competitors may be able to offer more attractive services to its customers. As a result, KBR's business and revenue could be materially and adversely affected.



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***It is an event of default under KBR's \$850 million revolving credit facility if a person other than Halliburton or KBR directly or indirectly acquires 25% or more of the ordinary voting equity interests of the borrower under the credit facility.***

Under KBR's \$850 million revolving credit facility, it is an event of default if any person or two or more persons acting in concert, other than Halliburton or KBR, directly or indirectly acquires 25% or more of the combined voting power of all outstanding equity interests ordinarily entitled to vote in the election of directors of KBR Holdings, LLC, a wholly owned subsidiary of KBR and the borrower under the credit facility. In the event of a default, the banks under the facility could declare all amounts due and payable, cease to provide additional advances and require cash collateralization for all outstanding letters of credit. If KBR is unable to obtain a waiver from the banks or negotiate an amendment or a replacement credit facility prior to an event of default, it could have a material adverse effect on KBR's liquidity, financial condition and cash flow.

***KBR's business could be materially and adversely affected by problems encountered in the installation or operation of a new SAP financial system to replace its current systems.***

KBR is in the process of installing a new SAP financial system to replace its current systems. Among other things, the new SAP system is intended to assist KBR in qualifying or continuing to qualify its estimating, purchasing and accounting system under requirements of the DoD and the DCAA. If KBR is unable to install the new SAP system in a timely manner or if KBR encounters problems in its installation or operation, KBR may not be able to obtain approval of its systems by the DoD and the DCAA, which could delay KBR's ability to receive payments from its customer and could have a material adverse effect on its results of operations in its G&I segment.

***International and political events may adversely affect KBR's operations.***

A significant portion of KBR's revenue is derived from its non-United States operations, which expose KBR to risks inherent in doing business in each of the countries in which it transacts business. The occurrence of any of the risks described below could have a material adverse effect on KBR's results of operations and financial condition.

KBR's operations in countries other than the United States accounted for approximately 86% of its consolidated revenue during 2006, 87% of its consolidated revenue during 2005 and 90% of its consolidated revenue during 2004. Based on the location of services provided, 45% of KBR's consolidated revenue in 2006, 50% in 2005 and 45% in 2004 was from its operations in Iraq, primarily related to its work for the United States government. Also, 12% of KBR's consolidated revenue during 2006 was from the United Kingdom. Operations in countries other than the United States are subject to various risks peculiar to each country. With respect to any particular country, these risks may include:

- expropriation and nationalization of KBR's assets in that country;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- natural disasters, including those related to earthquakes and flooding;
- inflation;
- currency fluctuations, devaluations, and conversion restrictions;

confiscatory taxation or other adverse tax policies;

governmental activities that limit or disrupt markets, restrict payments, or limit the movement of funds;

governmental activities that may result in the deprivation of contract rights; and

governmental activities that may result in the inability to obtain or retain licenses required for operation.



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Due to the unsettled political conditions in many oil-producing countries and countries in which KBR provides governmental logistical support, KBR's revenue and profits are subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls, and governmental actions. Countries where KBR operates that have significant amounts of political risk include: Afghanistan, Algeria, Indonesia, Iraq, Nigeria, Russia, and Yemen. In addition, military action or continued unrest in the Middle East could impact the supply and pricing for oil and gas, disrupt KBR's operations in the region and elsewhere, and increase its costs for security worldwide.

***KBR works in international locations where there are high security risks, which could result in harm to its employees and contractors or substantial costs.***

Some of KBR's services are performed in high-risk locations, such as Iraq, Afghanistan, Nigeria and Algeria where the country or location is suffering from political, social or economic issues, or war or civil unrest. In those locations where KBR has employees or operations, KBR may incur substantial costs to maintain the safety of its personnel. Despite these precautions, the safety of KBR's personnel in these locations may continue to be at risk, and KBR has in the past and may in the future suffer the loss of employees and contractors.

***KBR is subject to significant foreign exchange and currency risks that could adversely affect its operations and its ability to reinvest earnings from operations, and its ability to limit its foreign exchange risk through hedging transactions may be limited.***

A sizable portion of KBR's consolidated revenue and consolidated operating expenses are in foreign currencies. As a result, KBR is subject to significant risks, including:

foreign exchange risks resulting from changes in foreign exchange rates and the implementation of exchange controls; and

limitations on KBR's ability to reinvest earnings from operations in one country to fund the capital needs of its operations in other countries.

In particular, KBR conducts business in countries that have non-traded or soft currencies which, because of their restricted or limited trading markets, may be difficult to exchange for hard currencies. The national governments in some of these countries are often able to establish the exchange rates for the local currency. As a result, it may not be possible for KBR to engage in hedging transactions to mitigate the risks associated with fluctuations of the particular currency. KBR is often required to pay all or a portion of its costs associated with a project in the local soft currency. As a result, KBR generally attempts to negotiate contract terms with its customer, who is often affiliated with the local government, to provide that KBR is paid in the local currency in amounts that match its local expenses. If KBR is unable to match its costs with matching revenue in the local currency, KBR would be exposed to the risk of an adverse change in currency exchange rates.

Where possible, KBR selectively uses hedging transactions to limit its exposure to risks from doing business in foreign currencies. KBR's ability to hedge is limited because pricing of hedging instruments, where they exist, is often volatile and not necessarily efficient.

In addition, the value of the derivative instruments could be impacted by:

adverse movements in foreign exchange rates;

interest rates;

commodity prices; or

the value and time period of the derivative being different than the exposures or cash flow being hedged.

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***KBR does not anticipate paying any dividends on its common stock, and you may not receive funds without selling your shares of KBR common stock.***

KBR does not intend to declare or pay dividends on its common stock in the foreseeable future. Instead, KBR generally intends to invest any future earnings in its business. Subject to Delaware law, KBR's board of directors will determine the payment of future dividends on its common stock, if any, and the amount of any dividends in light of any applicable contractual restrictions limiting KBR's ability to pay dividends, its earnings and cash flow, its capital requirements, its financial condition, and other factors its board of directors deems relevant. KBR's \$850 million revolving credit facility also restricts its ability to pay dividends. Accordingly, you may have to sell some or all of your shares of KBR common stock in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell your shares of KBR common stock and may lose the entire amount of your investment.

***KBR completed its initial public offering in November 2006 and has only a limited history of operating as a publicly traded company, and KBR may encounter difficulties in making the changes necessary to operate as an independent, publicly traded company, and KBR may incur greater costs as an independent, publicly traded company following the exchange offer and any subsequent spin-off that may adversely affect KBR's results.***

Halliburton currently assists KBR in performing various corporate functions, including the following:

- information technology and communications;
- human resource services such as payroll and benefit plan administration;
- legal;
- tax;
- accounting;
- office space and office support;
- risk management;
- treasury and corporate finance; and
- investor services, investor relations and corporate communications.

Following KBR's anticipated complete separation from Halliburton, Halliburton will have no obligation to provide these functions to KBR other than the interim services that will continue to be provided by Halliburton under a transition services agreement which is described in *Agreements Between Halliburton and KBR and Other Related Party Transactions - Transition Services Agreements*. Also, after the termination of this agreement, KBR may not be able to replace the transition services in a timely manner or on terms and conditions, including costs, as favorable as those KBR receives from Halliburton.

Additionally, KBR will incur costs in connection with its anticipated separation from Halliburton and its operations as a separate company. In 2007, KBR anticipates incurring approximately \$12 million of additional cost of services and approximately \$23 million of additional general and administrative expense associated with being a separate publicly

traded company. Please read Management's Discussion and Analysis of Financial Condition and Results of Operations of KBR Executive Overview.

***The loss of executive officers or key employees could have a material adverse effect on KBR's business.***

KBR depends greatly on the efforts of its executive officers and other key employees to manage its operations. The loss or unavailability of any of KBR's executive officers or other key employees could have a material adverse effect on its business.

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***Provisions in KBR's charter documents and Delaware law may inhibit a takeover or impact operational control of KBR following the time Halliburton ceases to beneficially own a majority of KBR's outstanding voting stock, which could adversely affect the value of KBR common stock.***

KBR's certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in KBR's management that a stockholder might consider favorable. These provisions include, among others, a staggered board of directors, prohibiting stockholder action by written consent, advance notice for raising business or making nominations at meetings of stockholders and the issuance of preferred stock with rights that may be senior to those of KBR's common stock without stockholder approval. Many of these provisions become effective following the exchange offer and any subsequent spin-off or at the time Halliburton ceases to beneficially own a majority of KBR's outstanding voting stock. These provisions would apply even if a takeover offer may be considered beneficial by some of KBR's stockholders. If a change of control or change in management is delayed or prevented, the market price of KBR's common stock could decline.

***The terms of the agreements and other transactions between KBR and Halliburton entered into in connection with KBR's initial public offering were determined by Halliburton and thus may be less favorable to KBR than the terms KBR could have obtained from an unaffiliated third party.***

The transactions and agreements between KBR and Halliburton entered into in connection with KBR's initial public offering presented, and may in the future present, conflicts between KBR's interests and those of Halliburton. These transactions and agreements included agreements related to the separation of KBR's business from Halliburton that provide for, among other things, KBR's responsibility for liabilities related to KBR's business and the responsibility of Halliburton for liabilities unrelated to KBR's business, the respective rights, responsibilities and obligations of KBR and Halliburton with respect to taxes and tax benefits, and the terms of various interim and ongoing relationships between KBR and Halliburton, as described in Agreements Between Halliburton and KBR and Other Related Party Transactions. Because the terms of these transactions and agreements were determined by Halliburton, their terms may be less favorable to KBR than the terms KBR could have obtained from an unaffiliated third party. In addition, while Halliburton controls KBR, it could cause KBR to amend these agreements on terms that may be less favorable to KBR than the current terms of the agreements. KBR may not be able to resolve any potential conflict, and even if KBR does, the resolution may be less favorable than if KBR were dealing with an unaffiliated party. KBR and Halliburton may enter into other material agreements in the future.

**Risks Relating to Halliburton**

***Halliburton's business depends on the level of activity in the oil and natural gas industry, which is significantly affected by volatile oil and gas prices.***

Demand for Halliburton's services and products depends on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices. Demand for Halliburton's services and products is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other factors that are beyond Halliburton's control. Any prolonged reduction in oil and natural gas prices will depress the immediate levels of exploration, development, and production activity, often reflected as changes in rig counts. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies or longer-term higher material and contractor prices impacting facility costs can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity result in a corresponding decline in the demand for Halliburton's oil and natural gas well services and products, which

could have a

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material adverse effect on its revenue and profitability. Factors affecting the prices of oil and natural gas include:

governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;

global weather conditions and natural disasters;

worldwide political, military, and economic conditions;

the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;

economic growth in China and India;

oil refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;

the cost of producing and delivering oil and gas;

potential acceleration of development of alternative fuels; and

the level of demand for oil and natural gas, especially demand for natural gas in the United States.

Historically, the markets for oil and gas have been volatile and are likely to continue to be volatile. Spending on exploration and production activities and capital expenditures for refining and distribution facilities by large oil and gas companies have a significant impact on the activity levels of Halliburton's businesses. In the current environment where oil and gas demand exceeds supply, the ability to rebalance supply with demand may be constrained by the global availability of rigs. Full utilization of rigs could lead to limited growth in revenue. In addition, the extent of the growth in oilfield services may be limited by the availability of equipment and manpower.

***The SEC and the DOJ are investigating the actions of agents in certain of KBR's foreign projects in light of the requirements of the United States Foreign Corrupt Practices Act, and Halliburton has agreed to indemnify KBR with respect to certain potential liabilities that may arise under the Foreign Corrupt Practices Act or similar laws. The results of these investigations, including any liabilities for which Halliburton would be required to indemnify KBR, could have a material adverse effect on Halliburton's business, prospects, results of operations, financial condition and cash flow.***

The SEC is conducting a formal investigation into whether improper payments were made to government officials in Nigeria through the use of agents or subcontractors in connection with the construction and subsequent expansion by TSKJ, a joint venture in which one of KBR's subsidiaries (a successor to The M.W. Kellogg Company) had a 25% interest at December 31, 2006, of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The DOJ is also conducting a related criminal investigation. The SEC has also issued subpoenas seeking information, which KBR is furnishing, regarding current and former agents used in connection with multiple projects, including current and prior projects, over the past 20 years located both in and outside of Nigeria in which KBR, The M.W. Kellogg Company, M.W. Kellogg Limited or their or its joint ventures are or were participants. The SEC and the DOJ have been reviewing these matters in light of the requirements of the FCPA. Please read [Business of KBR](#) [Legal Proceedings](#) [FCPA Investigations](#) for more information.

Halliburton has been investigating these matters and has been cooperating with the SEC and the DOJ investigations and with other investigations into the Bonny Island project in France, Nigeria and Switzerland. Halliburton believes that the Serious Frauds Office in the United Kingdom is conducting an investigation relating to the Bonny Island

project. As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. Halliburton has reason to believe that, based on the ongoing investigations, payments may have been made by agents of TSKJ to Nigerian officials. In addition, information uncovered in the summer of 2006 suggests that, prior to 1998, plans may have been made by employees of The M.W. Kellogg Company to make payments to



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government officials in connection with the pursuit of a number of other projects in countries outside of Nigeria. Halliburton is reviewing a number of recently discovered documents related to KBR's activities in countries outside of Nigeria with respect to agents for projects after 1998. Certain of the activities discussed in this paragraph involve current or former employees or persons who were or are consultants to KBR, and the investigation continues. Additionally, in 2006, Halliburton suspended the services of an agent that, until such suspension, had served on projects outside of Nigeria, and Halliburton suspended the services of an additional agent on a separate current Nigerian project.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to \$500,000 per violation, equitable remedies, including disgorgement (if applicable) generally of profit, including prejudgment interest on such profits, causally connected to the violation, and injunctive relief. Criminal penalties could range up to the greater of \$2 million per violation or twice the gross pecuniary gain or loss from the violation, which could be substantially greater than \$2 million per violation. It is possible that both the SEC and the DOJ could assert that there have been multiple violations, which could lead to multiple fines. The amount of any fines or monetary penalties that could be assessed would depend on, among other factors, the findings regarding the amount, timing, nature and scope of any improper payments, whether any such payments were authorized by or made with knowledge of KBR or its affiliates, the amount of gross pecuniary gain or loss involved, and the level of cooperation provided to the government authorities during the investigations. Agreed dispositions of these types of violations also frequently result in an acknowledgement of wrongdoing by the entity and the appointment of a monitor on terms negotiated with the SEC and the DOJ to review and monitor current and future business practices, including the retention of agents, with the goal of assuring compliance with the FCPA. Other potential consequences could be significant and include suspension or debarment of KBR's ability to contract with governmental agencies of the United States and of foreign countries.

Under the terms of the master separation agreement, Halliburton has agreed to indemnify KBR for, and any of KBR's greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for KBR's share of, fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of claims made or assessed by a governmental authority of the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria or a settlement thereof relating to FCPA Matters, which could involve Halliburton and KBR through The M. W. Kellogg Company, M. W. Kellogg Limited or their or KBR's joint ventures in projects both in and outside of Nigeria, including the Bonny Island, Nigeria project. For purposes of the indemnity, FCPA Matters include claims relating to alleged or actual violations occurring prior to November 20, 2006, the date of the master separation agreement, of the FCPA or particular, analogous applicable statutes, laws, regulations and rules of U.S. and foreign governments and governmental bodies identified in the master separation agreement in connection with the Bonny Island project in Nigeria and in connection with any other project, whether located inside or outside of Nigeria, including without limitation the use of agents in connection with such projects, identified by a governmental authority of the United States, the United Kingdom, France, Nigeria, Switzerland or Algeria in connection with the investigations in those jurisdictions specified in the master separation agreement. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions - Master Separation Agreement - Indemnification - FCPA Indemnification and Enforceability of Halliburton FCPA Indemnification*.

The investigations by the SEC and DOJ and foreign governmental authorities are continuing. Halliburton does not expect these investigations to be concluded in the immediate future. The various governmental authorities could conclude that violations of the FCPA or applicable analogous foreign laws have occurred with respect to the Bonny Island project and other projects in or outside of Nigeria. In such circumstances, the resolution or disposition of these matters, could result in KBR being subject to substantial fines or other monetary penalties or direct monetary damages, including disgorgement, for which Halliburton would be obligated to indemnify KBR. If any such liabilities arise, Halliburton's indemnification obligation could have a material adverse effect on its financial condition, results of operations and cash flow.



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***Under the terms of the master separation agreement, Halliburton has agreed to indemnify KBR with respect to certain potential liabilities that may arise with respect to the replacement of certain subsea flow-line bolts installed in connection with KBR's Barracuda-Caratinga project. If any liabilities arise for which Halliburton would be required to indemnify KBR pursuant to this agreement, such obligation could have a material adverse effect on Halliburton's financial condition, results of operations and cash flow.***

Under the terms of the master separation agreement, Halliburton has agreed to indemnify KBR and any of KBR's greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for out-of-pocket cash costs and expenses, or cash settlements or cash arbitration awards in lieu thereof, KBR incurs as a result of the replacement of certain subsea flow-line bolts installed in connection with the Barracuda-Caratinga project. At KBR's cost, KBR will control the defense, counterclaim and/or settlement with respect to B-C Matters negotiated by KBR, but Halliburton will have discretion to determine whether to agree to any settlement or other resolution of B-C Matters. Halliburton has the right to assume control over the defense, counterclaim and/or settlement of B-C Matters at any time. In addition, if Halliburton assumes control over the defense, counterclaim and/or settlement of B-C Matters, and KBR refuses a settlement or other resolution proposed by Halliburton, Halliburton may terminate the indemnity. Also, if KBR materially breaches its obligation to cooperate with Halliburton or KBR enters into a settlement of B-C Matters without Halliburton's consent, Halliburton may terminate the indemnity. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions*, *Master Separation Agreement*, *Indemnification*, *Barracuda-Caratinga Indemnification* and *Management's Discussion and Analysis of Financial Condition and Results of Operations of KBR*, *Business Environment and Results of Operations*, *Barracuda-Caratinga and Belanak projects*. If any such liabilities arise, Halliburton's indemnification obligation could have a material adverse effect on its financial condition, results of operations and cash flow.

***Halliburton has outstanding financial and performance guarantees that have been issued in support of KBR's business. In addition, Halliburton has agreed to provide additional guarantees or to extend the terms of existing guarantees with respect to certain KBR projects. The amounts underlying Halliburton's outstanding guarantees and potential future guarantees are substantial. If Halliburton is required to make payments under these guarantees, and KBR fails to indemnify Halliburton for its liabilities pursuant to the terms of the master separation agreement, Halliburton's financial condition, results of operations and cash flow would be materially and adversely affected.***

In accordance with industry practice, KBR has often been required to provide letters of credit, surety bonds or other financial and performance guarantees to its customers in connection with its projects. Prior to KBR's initial public offering, Halliburton provided guarantees of most of KBR's surety bonds and letters of credit as well as most other payment and performance guarantees under KBR's contracts. As of December 31, 2006, KBR had over \$597 million of outstanding letters of credit and financial guarantees that were irrevocably and unconditionally guaranteed by Halliburton. In addition, Halliburton has guaranteed surety bonds and provided direct guarantees primarily related to KBR's performance. Please read *Management's Discussion and Analysis of Financial Condition and Results of Operation of KBR*, *Liquidity and Capital Resources*, *Letters of credit, bonds and financial and performance guarantees*.

In addition, under the terms of the master separation agreement Halliburton entered into with KBR in connection with KBR's initial public offering, Halliburton has agreed that until December 31, 2009, Halliburton will provide or cause to be provided additional guarantees and indemnification or reimbursement commitments, or extensions of existing guarantees and indemnification or reimbursement commitments, for KBR's benefit in connection with (a) letters of credit necessary to comply with KBR's EBIC contract, KBR's Allenby & Connaught project and all other KBR contracts that were in place as of December 15, 2005; (b) surety bonds issued to support new task orders pursuant to KBR's Allenby & Connaught project, two existing job order contracts for KBR's G&I segment and all other KBR

contracts that were in place as of December 15, 2005; and (c) performance guarantees in support of these contracts. Halliburton has agreed that each of its credit support instruments outstanding at the time of KBR's initial public offering and any additional guarantees, indemnification and reimbursement commitments for which Halliburton may become

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obligated following KBR's initial public offering will remain in effect until the earlier of: (1) the termination of the underlying project contract or KBR's obligations thereunder or (2) the expiration of the relevant credit support instrument in accordance with its terms or release of such instrument by KBR's customer. Please read *Agreements Between Halliburton and KBR and Other Related Party Transactions*, *Master Separation Agreement*, *Credit Support Instruments*.

Although KBR has agreed to indemnify Halliburton for all losses in connection with Halliburton's outstanding credit support instruments relating to KBR's business and any additional credit support instruments relating to KBR's business for which Halliburton may become obligated following KBR's initial public offering, Halliburton will remain subject to the risks associated with KBR's business, and the risk that KBR will not be able to satisfy its indemnification obligations to Halliburton, until all of Halliburton's credit support instruments have been terminated.

***Halliburton is responding to an inquiry from the Office of Foreign Assets Control regarding one of its non-United States subsidiary's operations in Iran.***

Halliburton received and responded to an inquiry in mid-2001 from the Office of Foreign Assets Control (OFAC) of the United States Treasury Department with respect to operations in Iran by a Halliburton subsidiary incorporated in the Cayman Islands. The OFAC inquiry requested information with respect to compliance with the Iranian Transaction Regulations. These regulations prohibit United States citizens, including United States corporations and other United States business organizations, from engaging in commercial, financial, or trade transactions with Iran, unless authorized by OFAC or exempted by statute. Halliburton's 2001 written response to OFAC stated that Halliburton believed that Halliburton was in compliance with applicable sanction regulations. In the first quarter of 2004, Halliburton responded to a follow-up letter from OFAC requesting additional information. Halliburton understands this matter has now been referred by OFAC to the DOJ. In July 2004, Halliburton received a grand jury subpoena from an Assistant United States District Attorney requesting the production of documents. Halliburton is cooperating with the government's investigation and has responded to the subpoena by producing documents in September 2004.

Separate from the OFAC inquiry, Halliburton has completed a study in 2003 of Halliburton's activities in Iran during 2002 and 2003 and concluded that these activities were in compliance with applicable sanction regulations. These sanction regulations require isolation of entities that conduct activities in Iran from contact with United States citizens or managers of United States companies. Notwithstanding Halliburton's conclusions that its activities in Iran were not in violation of United States laws and regulations, Halliburton announced that, after fulfilling its current contractual obligations within Iran, it intends to cease operations within that country and withdraw from further activities there.

***International and political events may adversely affect Halliburton's operations.***

A significant portion of Halliburton's revenue is derived from its non-United States operations, which exposes Halliburton to risks inherent in doing business in each of the countries in which it transacts business. The occurrence of any of the risks described below could have a material adverse effect on Halliburton's consolidated results of operations and consolidated financial condition.

Halliburton's operations in countries other than the United States (excluding KBR) accounted for approximately 55% of its consolidated revenue during 2006 and 57% during 2005. Operations in countries other than the United States are subject to various risks unique to each country. With respect to any particular country, these risks may include:

expropriation and nationalization of Halliburton's assets in that country;

political and economic instability;

civil unrest, acts of terrorism, force majeure, war, or other armed conflict;  
natural disasters, including those related to earthquakes and flooding;

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inflation;

currency fluctuations, devaluations, and conversion restrictions;

confiscatory taxation or other adverse tax policies;

governmental activities that limit or disrupt markets, restrict payments, or limit the movement of funds;

governmental activities that may result in the deprivation of contract rights; and

governmental activities that may result in the inability to obtain or retain licenses required for operation.

Due to the unsettled political conditions in many oil-producing countries and countries in which Halliburton provides governmental logistical support, Halliburton's revenue and profits are subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls, and governmental actions. Countries where Halliburton operates that have significant amounts of political risk include: Afghanistan, Algeria, Indonesia, Iran, Iraq, Nigeria, Russia, Venezuela, and Yemen. In addition, military action or continued unrest in the Middle East could impact the supply and pricing for oil and gas, disrupt Halliburton's operations in the region and elsewhere, and increase Halliburton's costs for security worldwide. Halliburton's facilities and employees are under threat of attack in some countries where it operates. In addition, the risks related to loss of life of Halliburton personnel and subcontractors in these areas continues. Halliburton is also subject to the risks that its employees, joint venture partners, and agents outside of the United States may fail to comply with applicable laws.

***Military action, other armed conflicts or terrorist attacks could have a material adverse effect on Halliburton's business.***

Military action in Iraq, military tension involving North Korea and Iran, as well as the terrorist attacks of September 11, 2001 and subsequent terrorist attacks, threats of attacks, and unrest, have caused instability or uncertainty in the world's financial and commercial markets and have significantly increased political and economic instability in some of the geographic areas in which Halliburton operates. Acts of terrorism and threats of armed conflicts in or around various areas in which Halliburton operates, such as the Middle East and Indonesia, could limit or disrupt markets and Halliburton's operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of personnel or assets.

Such events may cause further disruption to financial and commercial markets and may generate greater political and economic instability in some of the geographic areas in which Halliburton operates. In addition, any possible reprisals as a consequence of the war and ongoing military action in Iraq, such as acts of terrorism in the United States or elsewhere, could materially and adversely affect Halliburton in ways it cannot predict at this time.

***Halliburton is subject to taxation in many jurisdictions and there are inherent uncertainties in the final determination of its tax liabilities.***

Halliburton has operations in about 100 countries other than the United States. Consequently, Halliburton is subject to the jurisdiction of a significant number of taxing authorities. The income earned in these various jurisdictions is taxed on differing bases, including net income actually earned, net income deemed earned, and revenue-based tax withholding. The final determination of Halliburton's tax liabilities involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction, as well as the significant use of estimates and assumptions regarding the scope of future operations and results achieved and the timing and nature of income earned and

expenditures incurred. Changes in the operating environment, including changes in tax law and currency/repatriation controls, could impact the determination of Halliburton's tax liabilities for a tax year.



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***Halliburton is subject to significant foreign exchange and currency risks that could adversely affect its operations and its ability to reinvest earnings from operations, and its ability to limit its foreign exchange risk through hedging transactions may be limited.***

A sizable portion of Halliburton's consolidated revenue and consolidated operating expenses are in foreign currencies. As a result, Halliburton is subject to significant risks, including:

foreign exchange risks resulting from changes in foreign exchange rates and the implementation of exchange controls; and

limitations on Halliburton's ability to reinvest earnings from operations in one country to fund the capital needs of its operations in other countries.

Halliburton conducts business in countries that have nontraded or soft currencies which, because of their restricted or limited trading markets, may be more difficult to exchange for hard currencies. Halliburton may be able to accumulate cash in soft currencies and may be limited in its ability to convert its profits into United States dollars or to repatriate the profits from those countries.

Halliburton selectively uses hedging transactions to limit its exposure to risks from doing business in foreign currencies. For those transactions that are not readily convertible, Halliburton's ability to hedge its exposure is limited because financial hedge instruments for those currencies are nonexistent or limited. Halliburton's ability to hedge is also limited because pricing of hedging instruments, where they exist, is often volatile and not necessarily efficient.

In addition, the value of the derivative instruments could be impacted by:

adverse movements in foreign exchange rates;

interest rates;

commodity prices; or

the value and time period of the derivative being different than the exposures or cash flows being hedged.

***The loss of one or more significant customers could have a material adverse effect on Halliburton's business and consolidated results of operations.***

Halliburton's Energy Services Group depends on a limited number of significant customers. While none of these customers represented more than 10% of Halliburton's Energy Services Group revenue in 2006 presented in this Prospectus-Offer to Exchange, the loss of one or more significant customers could have a material adverse effect on Halliburton's business and consolidated results of operations.

***Halliburton may pursue acquisitions, dispositions, investments, and joint ventures, which involve a number of risks that could adversely affect its results of operations.***

Halliburton continually seeks opportunities to maximize efficiency and value through various transactions, including purchases or sales of assets, businesses, investments or joint ventures. Acquisition transactions may be financed by additional borrowings or by the issuance of Halliburton common stock. These transactions may also affect Halliburton's consolidated results of operations.

These transactions also involve risks and Halliburton cannot ensure that:

any acquisitions would result in an increase in its income;

any acquisitions would be successfully integrated into its operations and internal controls;

any disposition would not result in decreased earnings, revenue, or cash flow;

any dispositions, investments, acquisitions or integrations would not divert management resources; or

any dispositions, investments, acquisitions or integrations would not have a material adverse effect on Halliburton's results of operations or financial condition.

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Halliburton conducts some operations through joint ventures, where control may be shared with unaffiliated third parties. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. Halliburton also cannot control the actions of its joint venture partners, including any nonperformance, default, or bankruptcy of Halliburton's joint venture partners. These factors could potentially materially and adversely affect the business and operations of the joint venture and, in turn, Halliburton's business and operations.

***Halliburton's exposure to operating risks could increase if it is unable to obtain certain contractual limitations on liability.***

Halliburton's contracts generally contain provisions where its customers agree to limitations of Halliburton's liability resulting from certain events such as damage to underground reservoirs and wells, costs for loss of control of a well, loss of production, damage to existing facilities, and consequential damages. It is also common for Halliburton to have arrangements with the customer and its other contractors that protect Halliburton against large exposures for damage to or loss of drilling units and injury to other contractors' personnel. These contract provisions are standard in Halliburton's industries, and any erosion of these contractual protections in future contracts could result in significant additional liability and associated cost to Halliburton.

***Halliburton is subject to a variety of environmental requirements that impose on it obligations or result in its incurring liabilities that will adversely affect its results of operations or for which Halliburton's failure to comply could adversely affect it.***

Halliburton's businesses are subject to a variety of environmental laws, rules, and regulations in the United States and other countries, including those covering hazardous materials and requiring emission performance standards for facilities. For example, Halliburton's well service operations routinely involve the handling of significant amounts of waste materials, some of which are classified as hazardous substances. Halliburton also stores, transports, and uses radioactive and explosive materials in certain of its operations. Environmental requirements include, for example, those concerning:

- the containment and disposal of hazardous substances, oilfield waste, and other waste materials;
- the importation and use of radioactive materials;
- the use of underground storage tanks; and
- the use of underground injection wells.

Environmental and other similar requirements generally are becoming increasingly strict. Sanctions for failure to comply with these requirements, many of which may be applied retroactively, may include:

- administrative, civil, and criminal penalties;
- revocation of permits to conduct business; and
- corrective action orders, including orders to investigate and/or clean-up contamination.

Failure on Halliburton's part to comply with applicable environmental requirements could have a material adverse effect on its consolidated financial condition. Halliburton is also exposed to costs arising from environmental

compliance, including compliance with changes in or expansion of environmental requirements, which could have a material adverse effect on its business, financial condition, operating results, or cash flow.

Halliburton is exposed to claims under environmental requirements, and, from time to time, such claims have been made against it. In the United States, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations Halliburton could be exposed to liability for clean-up costs, natural resource damages, and other damages as a result of its conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties. Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on Halliburton's consolidated results of operations.

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Changes in environmental requirements may negatively impact demand for Halliburton's services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). A decline in exploration and production, in turn, could materially and adversely affect Halliburton.

***Halliburton's operations are subject to numerous regulatory requirements. A failure by Halliburton to obtain or maintain any necessary governmental permit or approval or to comply with applicable regulations, could adversely impact Halliburton's ability to provide its services, which could have a material adverse affect on its results of operations.***

In the countries in which Halliburton conducts business, it is subject to multiple and at times inconsistent regulatory regimes, including those that govern its use of radioactive materials, explosives, and chemicals in the course of its operations. Various national and international regulatory regimes govern the shipment of these items. Many countries, but not all, impose special controls upon the export and import of radioactive materials, explosives, and chemicals. Halliburton's ability to do business is subject to maintaining required licenses and complying with these multiple regulatory requirements applicable to these special products. In addition, the various laws governing import and export of both products and technology apply to a wide range of services and products Halliburton offers. In turn, this can affect Halliburton's employment practices of hiring people of different nationalities because these laws may prohibit or limit access to some products or technology by employees of various nationalities. Changes in, compliance with, or Halliburton's failure to comply with these laws may negatively impact its ability to provide services in, make sales of equipment to, and transfer personnel or equipment among some of the countries in which it operates and could have a material adverse affect on its results of operations.

***Halliburton's operations would be adversely affected if it is unable to obtain certain raw materials.***

Raw materials essential to Halliburton's business are normally readily available. Current market conditions have triggered constraints in the supply chain of certain raw materials, such as sand, cement, and specialty metals. The majority of Halliburton's risk associated with the current supply chain constraints occurs in those situations where it has a relationship with a single supplier for a particular resource.

***Halliburton may be unable to protect its intellectual property rights.***

Halliburton relies on a variety of intellectual property rights that it uses in its services and products. Halliburton may not be able to successfully preserve these intellectual property rights in the future, and these rights could be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which Halliburton's services and products may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Halliburton's failure to protect its proprietary information and any successful intellectual property challenges or infringement proceedings against it could materially and adversely affect Halliburton's competitive position.

***If Halliburton's technologies become obsolete, its competitive position could be adversely affected.***

The market for Halliburton's services and products is characterized by continual technological developments to provide better and more reliable performance and services. If Halliburton is not able to design, develop, and produce commercially competitive products and to implement commercially competitive services in a timely manner in response to changes in technology, its business and revenue could be materially and adversely affected, and the value of its intellectual property may be reduced. Likewise, if Halliburton's proprietary technologies, equipment and facilities, or work processes become obsolete, it may no longer be competitive, and its business and revenue could be

materially and adversely affected.

***The loss of executive officers or key employees could have a material adverse effect on Halliburton's business.***

Halliburton depends greatly on the efforts of its executive officers and other key employees to manage its operations. The loss or unavailability of any of Halliburton's executive officers or other key employees could have a material adverse effect on its business.

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***Halliburton may be unable to employ a sufficient number of technical personnel.***

Many of the services that Halliburton provides and the products that it sells are complex and highly engineered and often must perform or be performed in harsh conditions. Halliburton believes that its success depends upon its ability to employ and retain technical personnel with the ability to design, utilize, and enhance these services and products. In addition, Halliburton's ability to expand its operations depends in part on its ability to increase its skilled labor force. The demand for skilled workers is high, and the supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of Halliburton's skilled labor force, increases in the wage rates that Halliburton must pay, or both. If either of these events were to occur, Halliburton's cost structure could increase, its margins could decrease, and its growth potential could be impaired.

***Halliburton is susceptible to adverse weather conditions in its regions of operation.***

Halliburton's businesses could be materially and adversely affected by severe weather, particularly in the Gulf of Mexico where it has operations. Repercussions of severe weather conditions may include:

- evacuation of personnel and curtailment of services;
- weather-related damage to offshore drilling rigs resulting in suspension of operations;
- weather-related damage to Halliburton's facilities and project work sites;
- inability to deliver materials to jobsites in accordance with contract schedules; and
- loss of productivity.

Because demand for natural gas in the United States drives a significant amount of the United States business of Halliburton's Energy Services Group, warmer than normal winters in the United States are detrimental to the demand for Halliburton's services to gas producers.

**Risks Relating to the Exchange Offer and Any Subsequent Spin-Off**

***Your investment will be subject to different risks after the exchange offer regardless of whether you elect to participate in the exchange offer.***

Whether or not you tender all, some or none of your shares of Halliburton common stock in the exchange offer, the shares you hold after the completion of the exchange offer will reflect a different investment from the investment you previously held.

If you exchange all of your shares of Halliburton common stock and the exchange offer is not oversubscribed, then you will no longer have an interest in Halliburton, but instead will directly own an interest in KBR. As a result, your investment will be subject to risks associated with KBR and not risks associated with Halliburton.

If you exchange all of your shares of Halliburton common stock and the exchange offer is oversubscribed, then the offer will be subject to the proration procedures described under *The Exchange Offer* Proration; Odd-Lots (unless your odd-lot tender is not subject to proration) and you will own an interest in both Halliburton and KBR. As a result, your investment will continue to be subject to risks associated with both Halliburton and

KBR.

If you exchange some, but not all, of your shares of Halliburton common stock, then regardless of whether the exchange offer is fully subscribed, the number of shares of Halliburton common stock you own will decrease (unless you otherwise acquire shares of Halliburton common stock), while the number of shares of KBR common stock you own will increase. As a result, your investment will continue to be subject to risks associated with both Halliburton and KBR.

If you do not exchange any of your shares of Halliburton common stock and the exchange offer is fully subscribed, then your interest in Halliburton will increase on a percentage basis, while your indirect ownership in KBR will be eliminated (assuming you do not otherwise have an investment in KBR).



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common stock). As a result, your investment will be subject to risks associated with Halliburton and not risks associated with KBR because Halliburton will no longer have an investment in KBR, except to the extent Halliburton has agreed to indemnify KBR with respect to certain aspects of KBR's business or Halliburton becomes obligated to make payments under certain credit support obligations relating to KBR's business. Please read Risks Relating to Halliburton.

If you remain a stockholder of Halliburton following the completion of the exchange offer and the exchange offer is not fully subscribed and Halliburton completes the spin-off described under Spin-off Distribution of KBR Common Stock, then you may receive shares of KBR common stock (although you may instead receive only cash in lieu of a fractional share). As a result, your investment may be subject to risks associated with both Halliburton and KBR.

***The exchange offer and related transactions will result in a substantial amount of KBR common stock entering the trading market, which may adversely affect the market price of KBR common stock. The prior performance of KBR common stock may not be indicative of the performance of KBR common stock after the exchange offer.***

KBR is currently a majority-owned subsidiary of Halliburton and, as of March 1, 2007, 135,627,000 shares of KBR common stock (or approximately 81% of the total number of outstanding shares) were held by Halliburton and 32,016,000 shares of KBR common stock (or approximately 19% of the total number of outstanding shares) were held by persons other than Halliburton. Following the exchange offer, assuming the exchange offer is fully subscribed, all shares of KBR common stock not held by KBR affiliates will be freely tradable. The distribution of such a large number of shares of KBR common stock could adversely affect the market prices of KBR common stock.

***The prior performance of Halliburton's and KBR's common stock price may not be indicative of the performance of their common stock after the exchange offer.***

Halliburton's and KBR's common stock price history may not provide investors with a meaningful basis for evaluating an investment in either company's common stock. KBR has only been a publicly traded company since November 2006. The prior performance of Halliburton's and KBR's common stock may not be indicative of the performance of their common stock after the exchange offer.

***The historical financial data of Halliburton and KBR may not be indicative of their results as separate companies.***

The historical financial data of Halliburton and KBR presented in this document may not necessarily reflect what the results of operations, financial condition and cash flows of each would have been had the companies been separate, stand-alone entities pursuing independent strategies during the periods presented. As a result, historical financial data is not necessarily indicative of future results of operations, financial condition and cash flows of either Halliburton or KBR.

***The market price of KBR common stock may fluctuate significantly during and after the exchange offer period, and you could lose all or part of your investment in KBR common stock as a result.***

The price of KBR common stock may fluctuate significantly during and after the exchange offer period as a result of many factors in addition to those discussed herein. Since KBR's initial public offering, the price of KBR's common stock as reported by the New York Stock Exchange has ranged from a low of \$20.50 on November 16, 2006 to a high of \$27.63 on December 26, 2006. Some specific factors that may have a significant effect on the market price of KBR common stock include:

its operating and financial performance and prospects;

quarterly variations in the rate of growth of its financial indicators, such as earnings per share, net income and revenue;

the outcome of the FCPA and other investigations;

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publication of research reports by analysts;

speculation in the press or investment community;

strategic actions by KBR or its competitors, such as acquisitions, restructurings or innovations;

actions by institutional investors;

fluctuations in oil and natural gas prices;

departure of key personnel;

general market conditions;

U.S. and international political, economic, legal and regulatory factors unrelated to its performance; and

the other risks described in this Risk Factors section.

The stock markets in general have experienced extreme volatility that has at times been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of KBR's common stock.

***The Internal Revenue Service may treat the exchange offer as taxable to exchanging stockholders or to Halliburton.***

Halliburton has received a tax opinion from Baker Botts L.L.P. confirming that the exchange offer and any subsequent spin-off, except with respect to any cash received in lieu of a fractional share of KBR common stock, will qualify as transactions that are tax-free under Section 355 of the Internal Revenue Code of 1986, as amended. Section 355 of the Internal Revenue Code is highly technical and complex, and many aspects of the statute have not yet been addressed by judicial decisions, Treasury regulations, or other administrative guidance. The opinion of Baker Botts L.L.P. is based on certain factual representations, covenants and assumptions. If these factual representations, covenants and assumptions are incorrect in any material respect, Halliburton's ability to rely on the opinion would be jeopardized. The opinion of Baker Botts L.L.P. is not binding on the Internal Revenue Service. Accordingly, Halliburton and KBR cannot assure you that the Internal Revenue Service will agree with the conclusions set forth in the opinion, and it is possible that the Internal Revenue Service could adopt a position contrary to one or all of those conclusions and that a court could sustain that contrary position. If Halliburton completes the exchange offer and the exchange offer is held to be taxable, Halliburton could be subject to tax as if the distribution were a taxable sale by Halliburton of its KBR shares at market value, resulting in a material amount of taxes for Halliburton because its tax basis in the KBR shares is not significant. Moreover, depending on the circumstances, KBR could be required to indemnify Halliburton with respect to such tax liability. Halliburton stockholders who receive KBR shares would recognize taxable gain or loss or taxable income. In such a case, such stockholders would be subject to federal income tax consequences which would vary with the individual circumstances of the stockholder and may be material for some stockholders. Neither Halliburton nor KBR will indemnify any individual stockholder for any taxes that may be incurred in connection with the exchange offer.

Prior to KBR's initial public offering, Halliburton had requested a ruling from the Internal Revenue Service that, among other things, no gain or loss will be recognized by Halliburton or its stockholders as a result of a one-step spin-off distribution. Halliburton received the requested ruling from the Internal Revenue Service in January 2007.

The ruling does not, by its terms, apply to an exchange offer. In February 2007, Halliburton requested an additional ruling from the Internal Revenue Service that, among other things, no gain or loss will be recognized by Halliburton or its stockholders in connection with the exchange offer and any subsequent spin-off. However, the consummation of the exchange offer is not conditioned upon receipt of a ruling from the Internal Revenue Service.

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***If the exchange offer and any subsequent spin-off distribution fail to qualify as a tax-free transaction because of actions KBR takes or because of a change of control of KBR, KBR will be required to indemnify Halliburton for any resulting taxes, and this potential obligation to indemnify Halliburton may prevent or delay a change of control of KBR.***

In connection with the exchange offer and any subsequent spin-off distribution, KBR and Halliburton will be required to comply with representations that have been made to Halliburton's tax counsel in connection with the tax opinion that was issued to Halliburton regarding the tax-free nature of the exchange offer and any subsequent spin-off distribution to Halliburton's stockholders and with representations that have been made to the Internal Revenue Service in connection with the private letter ruling that Halliburton has requested. If KBR breaches any representations with respect to the opinion or ruling request or takes any action that causes such representations to be untrue and which causes the exchange offer and any subsequent spin-off to be taxable, KBR will be required to indemnify Halliburton for any and all taxes incurred by Halliburton or any of its affiliates resulting from the failure of the exchange offer and any subsequent spin-off to qualify as tax-free transactions as provided in the tax sharing agreement between KBR and Halliburton. Further, KBR has agreed not to enter into transactions for two years after the completion of the exchange offer and any subsequent spin-off distribution that would result in a more than immaterial possibility of a change of control of KBR pursuant to a plan unless a ruling is obtained from the Internal Revenue Service or an opinion is obtained from a nationally recognized law firm that the transaction will not affect the tax-free nature of the exchange offer and any subsequent spin-off distribution. For these purposes, certain transactions are deemed to create a more than immaterial possibility of a change of control of KBR pursuant to a plan, and thus require such a ruling or opinion, including, without limitation, the merger of KBR with or into any other corporation, stock issuances (regardless of size) other than in connection with KBR employee incentive plans, or the redemption or repurchase of any of KBR's capital stock (other than in connection with future employee benefit plans or pursuant to a future market purchase program involving 5% or less of KBR's publicly traded stock). If KBR takes any action which results in the exchange offer and/or any subsequent spin-off distribution becoming a taxable transaction, KBR will be required to indemnify Halliburton for any and all taxes incurred by Halliburton or any of its affiliates, on an after-tax basis, resulting from such actions. The amounts of any indemnification payments would be substantial and would have a material adverse effect on KBR's financial condition.

Depending on the facts and circumstances, the exchange offer and any subsequent spin-off distribution may be taxable to Halliburton if KBR undergoes a 50% or greater change in stock ownership within two years after the exchange offer and any subsequent spin-off distribution. Under the tax sharing agreement between KBR and Halliburton, Halliburton is entitled to reimbursement of any tax costs incurred by Halliburton as a result of a change in control of KBR after the exchange offer. Halliburton would be entitled to such reimbursement even in the absence of any specific action by KBR, and even if actions of Halliburton (or any of its officers, directors or authorized representatives) contributed to a change in control of KBR. These costs may be so great that they delay or prevent a strategic acquisition, a change in control of KBR or an attractive business opportunity. Actions by a third party after the exchange offer causing a 50% or greater change in KBR's stock ownership could also cause the exchange offer and any subsequent spin-off distribution by Halliburton to be taxable and require reimbursement by KBR.

***If the market value of KBR common stock decreases during the exchange offer period relative to the market value of Halliburton common stock, tendering stockholders in the exchange offer may not receive the anticipated 7.5% discount to the per-share value of KBR common stock and, depending upon the magnitude of the decrease in market value of KBR common stock relative to the market value of Halliburton common stock, tendering stockholders may be exchanging shares of Halliburton common stock for shares of KBR common stock without any discount, or even at a premium, to the per-share value of KBR common stock.***

The exchange offer is designed to permit you to exchange your shares of Halliburton common stock for shares of KBR common stock at a 7.5% discount to the calculated per-share value of KBR common stock on the valuation dates. Stated another way, and subject to the limitations described below, for each \$1.00 of your

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Halliburton common stock accepted in the exchange offer, you will receive approximately \$1.08 of KBR common stock. The per-share value of Halliburton common stock and the per-share value of KBR common stock to be used for purposes of calculating the exchange ratio will equal the arithmetic average of the daily VWAP for Halliburton common stock and KBR common stock, as applicable, on the New York Stock Exchange for each of the valuation dates. Stated another way, the final calculated per-share value for each stock will be calculated by adding the daily VWAP of the applicable stock for each of the valuation dates and then calculating the average by dividing the resulting total by three. However, the number of shares you can receive is subject to a maximum exchange ratio of 1.5905 shares of KBR common stock for each share of Halliburton common stock accepted in the exchange offer. The maximum exchange ratio will come into effect if there is a decrease of sufficient magnitude in the market value of KBR common stock relative to the market value of Halliburton common stock. If the maximum exchange ratio is in effect, you will receive less than \$1.08 of KBR common stock for each \$1.00 of Halliburton common stock accepted in the exchange offer (based on the calculated per-share values of Halliburton common stock and KBR common stock for the valuation dates), and you could receive much less. Stated another way, if the maximum exchange ratio is not in effect, the formula for calculating the exchange ratio contemplates that, for each share of Halliburton common stock accepted in the exchange offer, you will receive a number of shares of KBR common stock calculated at a 7.5% discount to the per-share value of KBR common stock. However, if the maximum exchange ratio is in effect and you still decide to tender your shares of Halliburton common stock, you will exchange your shares of Halliburton common stock for shares of KBR common stock at a discount of less than 7.5% to the per-share value of KBR common stock and, depending upon the magnitude of the decrease in market value of KBR common stock relative to the market value of Halliburton common stock during the exchange offer period, you may be exchanging your shares of Halliburton common stock for shares of KBR common stock without any discount, or even at a premium, to the calculated per-share value of KBR common stock (i.e., if the decrease in market value of KBR common stock relative to the market value of Halliburton common stock is substantial enough, you could receive less than \$1.00 of KBR common stock for every \$1.00 of Halliburton common stock accepted in the exchange offer). If the maximum exchange ratio is in effect on the original expiration date, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day to permit stockholders to tender or withdraw their shares of Halliburton common stock during those days. Any changes in the prices of Halliburton common stock or KBR common stock on those additional days of the exchange offer will not, however, affect the final exchange ratio. In other words, the number of shares of KBR common stock that holders will receive will not change as a result of changes in the prices of KBR common stock or Halliburton common stock on those additional days that would otherwise have affected the ratio had those movements occurred during the valuation dates.

***Market prices for shares of Halliburton common stock may decline following the completion of the exchange offer.***

Investors may purchase shares of Halliburton common stock in order to participate in the exchange offer, which may have the effect of raising market prices for shares of Halliburton common stock during the pendency of the exchange offer. Following the completion of the exchange offer, the market prices for shares of Halliburton common stock may decline because any exchange offer-related demand for shares of Halliburton stock will cease.

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**CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS**

This Prospectus Offer to Exchange, including particularly the sections entitled Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations of KBR and Business of KBR, and certain documents incorporated by reference into this document, contain disclosures which are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include statements about the benefits of the split-off and any subsequent spin-off to Halliburton's stockholders, the discussions of KBR's and Halliburton's business strategies and their expectations concerning future operations, profitability, liquidity and capital resources. You can generally identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, forecast, goal, objective, plan, potential, predict, projection, should or other similar words. These statements relate to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to differ materially from those in the future that are implied by these forward-looking statements. Many of these factors cannot be controlled or predicted. These risks and other factors include those listed under Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Information and Risk Factors in Halliburton's Annual Report on Form 10-K for the year ended December 31, 2006, which report is incorporated by reference in this Prospectus Offer to Exchange. Those factors, among others, could cause KBR's or Halliburton's actual results and performance to differ materially from the results and performance projected in, or implied by, the forward-looking statements. As you read and consider this Prospectus Offer to Exchange, you should carefully understand that the forward-looking statements are not guarantees of performance or results. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by forward-looking statements.

The forward-looking statements included and incorporated by reference in this document are only made as of the date of this document or the respective documents incorporated by reference in this Prospectus Offer to Exchange, as applicable. All future written and oral forward-looking statements attributable to KBR, Halliburton or any person acting on their respective behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and KBR and Halliburton cannot predict those events or their impact. KBR and Halliburton assume no obligation to update any forward-looking statements after the date of this Prospectus Offer to Exchange as a result of new information, future events or developments, except as required by the federal securities laws.

For additional information regarding risks and uncertainties faced by Halliburton and KBR, please read Risk Factors and Where You Can Find More Information About Halliburton and KBR.



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**THE TRANSACTION**

**Background of the Exchange Offer**

KBR was incorporated in Delaware in March 2006 as an indirect wholly owned subsidiary of Halliburton. In April 2006, KBR filed a registration statement on Form S-1 with the Securities and Exchange Commission for an initial public offering of KBR common stock. In November 2006, KBR completed its initial public offering, through which it sold 32,016,000 shares of its common stock for aggregate net proceeds of \$511 million.

At the time of KBR's initial public offering, Halliburton had advised KBR that it intended to dispose of the KBR common stock that it owned following the initial public offering as expeditiously as possible through a tax-free distribution to Halliburton's stockholders. This distribution would have been effected by means of a special pro rata dividend of all of the shares of KBR common stock owned by Halliburton to Halliburton's stockholders. The record date for holders to receive shares in this one-step spin-off distribution would have been set by Halliburton's board of directors at the time it approved the distribution. At the time of KBR's initial public offering, Halliburton also advised KBR that it had requested a ruling from the Internal Revenue Service that, among other things, no gain or loss will be recognized by Halliburton or its stockholders as a result of the one-step spin-off distribution. Halliburton also informed KBR that it intended to obtain an opinion of counsel related to the tax-free nature of the distribution. Halliburton also advised KBR that the determination of whether, and if so, when, to proceed with the distribution would be entirely within the discretion of Halliburton and that Halliburton could elect to dispose of the KBR common stock it owned in a number of different types of transactions, including a split-off.

Following KBR's initial public offering, Halliburton began to consider conducting the exchange offer, instead of the previously contemplated spin-off distribution, as a means of completing the separation of the two companies. Since Halliburton desires to dispose of its remaining interest in KBR in a tax efficient manner, the previously contemplated spin-off and the exchange offer are the only transactions that Halliburton considered. In December 2006, KBR's board of directors appointed a special committee of independent directors, consisting of Messrs. Jeffrey E. Curtiss and Richard J. Slater, to review and consider any changes to the various intercompany agreements between Halliburton and KBR that may be proposed in connection with the exchange offer. In December 2006, after considering the qualifications of certain law firms, the special committee retained Andrews Kurth LLP as its legal advisor. In early February 2007, after considering the qualifications of certain investment banking firms, the special committee retained Bear Stearns & Co. Inc. as its financial advisor.

Prior to KBR's initial public offering, Halliburton had requested a ruling from the Internal Revenue Service that, among other things, no gain or loss will be recognized by Halliburton or its stockholders as a result of a one-step spin-off distribution. Halliburton received the requested ruling from the Internal Revenue Service in January 2007. The ruling does not, by its terms, apply to an exchange offer. In February 2007, Halliburton requested an additional ruling from the Internal Revenue Service that, among other things, no gain or loss will be recognized by Halliburton or its stockholders in connection with the exchange offer and any subsequent spin-off. However, the consummation of the exchange offer is not conditioned upon receipt of a ruling from the Internal Revenue Service.

In February 2007, in anticipation of the exchange offer, Halliburton requested amendments to the tax sharing agreement and the registration rights agreement between Halliburton and KBR to clarify that the terms of the tax sharing agreement are applicable to the exchange offer and to amend the registration rights agreement to contemplate that KBR would file an S-4 registration statement with the SEC relating to the exchange offer sooner than 180 days after the completion of KBR's initial public offering. In connection with its request, Halliburton informed the special committee that Halliburton still intended to dispose of its remaining interest in KBR as expeditiously as possible.

Halliburton also informed the special committee that it preferred to dispose of its remaining interest by means of the exchange offer, but that if the exchange offer was not possible (or if the exchange offer is not fully subscribed) it would dispose of its remaining interest by means of a pro rata spin-off distribution. In connection with the special committee's review, negotiation and

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approval of the amended agreements, the special committee's independent financial advisor presented to the special committee and discussed the structural differences between the exchange offer and a one-step pro rata spin-off distribution. The special committee requested certain changes to the proposed terms of the amended registration rights agreement, including the addition of a reimbursement obligation by Halliburton to KBR for the fees and expenses of the special committee's independent financial advisor and independent legal counsel. After consulting with its independent financial advisor and independent legal counsel, the special committee of KBR's board of directors approved the amendment of the tax sharing agreement and the registration rights agreement and KBR and Halliburton entered into the amended agreements.

In February 2007, following meetings with Halliburton's financial advisors, Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co., Halliburton's board of directors approved a plan under which Halliburton will dispose of its remaining interest in KBR through a tax-free exchange with Halliburton's stockholders pursuant to the exchange offer, with any unsubscribed KBR shares to be distributed to Halliburton's stockholders in a subsequent spin-off distribution. Halliburton's board of directors delegated the authority to Halliburton's chief financial officer to establish the maximum exchange ratio and the discount to the per-share value of KBR common stock for use in calculating the exchange ratio for the exchange offer. Following discussions with Halliburton's financial advisors and consideration of market conditions and other comparable transactions, Halliburton's chief financial officer approved a 7.5% discount to the per-share value of KBR common stock for use in calculating the exchange ratio for the exchange offer, and a maximum exchange ratio of 1.5905 that was calculated based on a 15% premium to the market value of Halliburton common stock using the closing prices of Halliburton common stock and KBR common stock on March 1, 2007 (the day before the commencement of the exchange offer).

### **Reasons for the Exchange Offer**

The board of directors of Halliburton has determined that the separation of KBR from Halliburton is in the best interests of Halliburton and its stockholders. The separation of KBR from Halliburton will result in two independent companies.

The following potential benefits were considered by Halliburton's board of directors in making the determination to effect the separation:

The separation will permit the independent management of each of Halliburton and KBR to focus its attention and its company's financial resources on its respective distinct business and business challenges and to lead each independent company to adopt strategies and pursue objectives that are appropriate to its respective business.

The separation will allow Halliburton and KBR to better attract, retain and motivate current and future employees through the use of equity-based compensation policies that more directly link employee compensation with financial performances.

Both Halliburton and KBR believe that the differing characteristics of the two companies may appeal to different investor bases.

Neither Halliburton nor KBR can assure that, following the exchange offer and any subsequent distribution, any of these benefits will be realized to the extent anticipated or at all.

The following factors were considered by Halliburton's board of directors in making the determination to complete the separation by means of the exchange offer rather than by a spin-off distribution or other transaction:

Like a spin-off transaction, the exchange offer is a tax-efficient way for Halliburton to divest its interest in KBR.

The exchange offer presents an opportunity for Halliburton to repurchase outstanding shares of Halliburton common stock without reducing overall cash and financial flexibility.

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The exchange offer provides Halliburton's stockholders with an opportunity to adjust their investment between Halliburton and KBR on a tax-free basis for U.S. federal income tax purposes (except with respect to cash received in lieu of a fractional share) and, accordingly, is an efficient means of placing KBR common stock with only those Halliburton stockholders who wish to own an interest in KBR. By comparison, a separation effected exclusively by a pro-rata spin-off distribution to Halliburton's stockholders would result in substantially all of Halliburton's stockholders becoming owners of KBR, regardless of their desire to own any shares of KBR.

In order to encourage stockholders to participate in the exchange offer, Halliburton will likely be acquiring shares of Halliburton common stock at a premium.

The exchange offer presents more execution risk than a pro rata spin-off distribution, and may require an extension of the offering period and a subsequent spin-off distribution if the exchange offer is not fully subscribed.

The exchange offer is required to be conducted pursuant to an effective registration statement under the Securities Act of 1933, while a spin-off distribution could be completed without such a registration statement under the Securities Act.

The exchange offer will cause Halliburton to incur certain incremental expenses relating to the offering that it would not otherwise incur in connection with a spin-off distribution.

## **Effects of the Exchange Offer**

Upon completion of the exchange offer and any subsequent spin-off, Halliburton's financial statements will no longer reflect the assets, liabilities, results of operations or cash flows attributable to KBR. As a result, KBR's results will no longer be consolidated with those of Halliburton's for financial reporting purposes. Please read Halliburton Unaudited Pro Forma Condensed Consolidated Financial Information.

Holders of Halliburton common stock will be affected by the exchange offer as follows:

Holders who exchange all of their shares of Halliburton common stock, if the exchange offer is not oversubscribed, will no longer have any ownership interest in Halliburton but will instead have a new direct ownership interest in KBR. As a result, their investment will be subject to risks associated with KBR and not to risks associated with Halliburton.

Holders who exchange all of their shares of Halliburton common stock will, if the exchange offer is oversubscribed, be subject to proration (unless their odd-lot tender is not subject to proration) and will own an interest in both Halliburton and KBR. As a result, their investment will continue to be subject to risks associated with both Halliburton and KBR.

Holders who exchange some, but not all, of their shares of Halliburton common stock, regardless of whether the exchange offer is fully subscribed, will own fewer shares of Halliburton common stock and more shares of KBR common stock, unless they otherwise acquire Halliburton common stock. As a result, their investment will continue to be subject to risks associated with both Halliburton and KBR.

Holders who do not exchange any of their shares of Halliburton common stock in the exchange offer will have an increased ownership interest in Halliburton, on a percentage basis, and will, assuming the exchange offer is

fully subscribed and that they do not otherwise have an investment in KBR common stock, have no indirect ownership interest in KBR. As a result, their investment will be subject to risks associated with Halliburton and not risks associated with KBR because Halliburton will no longer have an investment in KBR, except to the extent Halliburton has agreed to indemnify KBR with respect to certain aspects of KBR's business or Halliburton becomes obligated to make payments under certain credit support obligations relating to KBR's business. Please read Risk Factors Risks Relating to Halliburton.

Holder who remain stockholders of Halliburton following the completion of the exchange offer may, if the exchange offer is not fully subscribed and if Halliburton completes a spin-off, receive shares of

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KBR common stock (although such holders may instead receive only cash in lieu of a fractional share). As a result, their investment may be subject to risks associated with both Halliburton and KBR.

### **KBR's Equity Capitalization Following the Exchange Offer**

KBR had 167,643,000 shares of common stock outstanding as of February 22, 2007, of which 135,627,000 shares, or approximately 81%, were held by Halliburton. KBR's equity capitalization will not change as a result of the exchange offer and any subsequent spin-off.

### **No Appraisal Rights**

Appraisal is a statutory remedy available to corporate stockholders who object to extraordinary actions taken by their corporation. This remedy allows dissenting stockholders to require the corporation to repurchase their stock at a price equivalent to its value immediately prior to the extraordinary corporate action. No appraisal rights are available to Halliburton's stockholders or KBR's stockholders in connection with the exchange offer and any subsequent spin-off.

### **Regulatory Approval**

Certain acquisitions of KBR common stock under the exchange offer may require a notification filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Halliburton will not be required to accept shares for exchange, and may extend, terminate or amend the exchange offer, if Halliburton reasonably expects that the completion of the exchange offer will result in any person or group of persons acquiring shares of KBR common stock in an amount that would require a notification filing under the Hart-Scott-Rodino Act. Please read "The Exchange Offer - Conditions to Completion of the Exchange Offer - Other Conditions." However, if a holder of Halliburton common stock decides to participate in the exchange offer and consequently acquires enough shares of KBR common stock to exceed the \$59.8 million threshold provided for in the Hart-Scott-Rodino Act and associated regulations (and if an exemption under the Hart-Scott-Rodino Act or regulations does not apply) and Halliburton waives the foregoing condition, Halliburton and the holder would be required to make filings under the Hart-Scott-Rodino Act and the holder would be required to pay the applicable filing fee. A filing requirement could delay the exchange of shares with the holder until the waiting periods in the Hart-Scott-Rodino Act have expired or been terminated.

Apart from the registration of shares of KBR common stock offered in the exchange offer under applicable securities laws and Halliburton's filing of a Schedule TO with the SEC, Halliburton does not believe that any other material U.S. federal or state regulatory filings or approvals will be necessary to consummate the exchange offer and any subsequent spin-off.

### **Accounting Treatment**

The shares of Halliburton common stock acquired by Halliburton in the exchange offer will be recorded as an acquisition of treasury stock at a cost equal to the market value of the Halliburton shares accepted in the exchange offer at its expiration. Any difference between the net book value of Halliburton's investment in the KBR common stock and the market value of the shares of Halliburton common stock acquired at that date will be recognized by Halliburton as a gain on disposal of discontinued operations net of any direct and incremental expenses of the exchange offer on the disposal of its KBR common stock.

The aggregate market value of Halliburton's investment in 135,627,000 shares of KBR common stock, based on the closing price of KBR's common stock on March 1, 2007 of \$22.66 per share, was approximately \$3.1 billion. The net book value of Halliburton's investment in KBR at December 31, 2006 was approximately \$1.5 billion. Halliburton expects to recognize a gain upon consummation of the exchange offer. The amount of the gain will be dependant upon

the final exchange ratio and the value of Halliburton common stock at the time the exchange offer is consummated. For example, if at the time Halliburton completes the exchange offer (i) the exchange offer is fully subscribed, (ii) the maximum exchange ratio is in effect, and (iii) the market value of Halliburton common stock is \$31.34 per share (the last reported sales price on the New York Stock Exchange on March 1, 2007), Halliburton would recognize a gain of approximately \$900 million in connection



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with the transaction, prior to estimated fees and expenses. A \$1 increase in the per share market value of Halliburton common stock in this example would increase the gain recognized by Halliburton by approximately \$85 million.

Any remaining shares of KBR common stock that are subsequently distributed in any spin-off will be accounted for as a dividend through a direct charge to retained earnings. The amount of the dividend will be equal to Halliburton's carrying value of the shares of KBR common stock so distributed.

Neither the exchange of shares of KBR common stock for shares of Halliburton common stock in the exchange offer nor the distribution of shares of KBR common stock in any subsequent spin-off, in and of themselves, will affect the financial condition or results of operations of KBR.

**Tax Treatment**

Please read "U.S. Federal Income Tax Consequences" for a discussion of the U.S. federal income tax treatment of the exchange offer and any subsequent spin-off.

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**THE EXCHANGE OFFER**

**Terms of the Exchange Offer**

*General.* Halliburton is offering to exchange up to 135,627,000 shares of KBR common stock for outstanding shares of Halliburton common stock validly tendered and not properly withdrawn, on the terms and conditions and subject to the limitations described below and in the related letter of transmittal, by 12:00 midnight, New York City time, on March 29, 2007, which date is referred to in this Prospectus-Offer to Exchange as the original expiration date. The last day on which tenders will be accepted, whether on March 29, 2007 or any later date to which the exchange offer is extended, is referred to in this Prospectus Offer to Exchange as the expiration date. Any holder of Halliburton common stock during the exchange offer period, including any directors or officers of Halliburton and KBR and their respective subsidiaries (subject to any black-out period restrictions applicable to executive officers and directors of Halliburton), may participate in the exchange offer. Holders may tender all, some or none of their shares of Halliburton common stock.

The number of shares of Halliburton common stock that will be accepted if the exchange offer is completed will depend on the final exchange ratio and the number of shares of Halliburton common stock tendered. Halliburton holds 135,627,000 shares of KBR common stock as of February 22, 2007. Accordingly, the largest possible number of shares of Halliburton common stock that will be accepted equals 135,627,000 divided by the final exchange ratio. If the exchange offer is oversubscribed, the tendered shares (other than odd-lot shares as described herein) will be subject to proration when the exchange offer expires. If the exchange offer is completed, but not enough shares of Halliburton common stock are tendered to allow Halliburton to exchange all of the shares of KBR common stock it owns, Halliburton will distribute to its stockholders by means of a special dividend, on a pro rata basis, all of its remaining shares of KBR common stock promptly following the completion of the exchange offer. Please read

Spin-Off Distribution of KBR Common Stock. Halliburton's obligation to complete the exchange offer is subject to important conditions that are described below in Conditions to Completion of the Exchange Offer.

For each share of Halliburton common stock that you validly tender in the exchange offer and do not properly withdraw, you will receive a number of shares of KBR common stock at a 7.5% discount to the per-share value of KBR common stock, calculated as set forth below, subject to a maximum limit of 1.5905 shares of KBR common stock per share of Halliburton common stock, which is referred to as the maximum exchange ratio. Stated another way, subject to the maximum exchange ratio described below, for each \$1.00 of Halliburton common stock accepted in the exchange offer, you will receive approximately \$1.08 of KBR common stock.

The final calculated per-share values of Halliburton common stock and KBR common stock to be used for purposes of calculating the exchange ratio will equal the arithmetic average of the daily VWAP for Halliburton common stock or KBR common stock, as applicable, on the New York Stock Exchange for the last three trading days of the currently anticipated exchange offer period (the valuation dates, and this three day period, the valuation period). Stated another way, the final calculated per-share value for each stock will be calculated by adding the daily VWAP of the applicable stock for each of the valuation dates and then calculating the average by dividing the resulting total by three. The valuation dates will be March 27, 2007, March 28, 2007 and March 29, 2007, unless the exchange offer is extended. The valuation dates will not change, however, if the exchange offer is extended solely as a result of the automatic extension triggered by the maximum exchange ratio, as described below.

As used in this Prospectus Offer to Exchange, VWAP means the volume-weighted average price per share of each of the two stocks on the New York Stock Exchange during the period specified, as calculated by Xignite, Inc., and daily VWAP means VWAP for the period beginning at 9:30 a.m., New York City time (or such other time as is the official

open of trading on the New York Stock Exchange) and ending at 4:00 p.m., New York City time (or such other time as is the official close of trading on the New York Stock Exchange), as calculated by Xignite, Inc., except that the data based on which the VWAP is determined will only take into account any adjustments made to reported trades included by 4:10 p.m., New York City time.

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The daily VWAP calculated by Xignite, Inc. may be different from volume-weighted average prices calculated by other sources or investors or other security holders own calculations of volume-weighted average prices.

The exchange offer will be automatically extended if a market disruption event occurs with respect to Halliburton common stock or KBR common stock on any of the valuation dates. In addition, if the maximum exchange ratio is in effect at the expiration of the currently anticipated exchange offer period, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day. Please read Automatic Extension.

*Maximum Exchange Ratio.* The number of shares you can receive is subject to a maximum exchange ratio of 1.5905 shares of KBR common stock for each share of Halliburton common stock accepted in the exchange offer. The maximum exchange ratio was calculated based on a 15% premium to the market value of Halliburton common stock using the closing prices of Halliburton common stock and KBR common stock on March 1, 2007 (the day before the commencement date of the exchange offer). Halliburton set this limit to ensure that an unusual or unexpected significant decrease in the market value of KBR common stock during the exchange offer period, relative to the market value of Halliburton common stock, would not result in an unduly high number of shares of KBR common stock being exchanged per share of Halliburton common stock accepted in the exchange offer. The exchange offer does not provide for a minimum exchange ratio.

**If the maximum exchange ratio is in effect, you will receive less than \$1.08 of KBR common stock for each \$1.00 of Halliburton common stock accepted in the exchange offer (based on the calculated per-share values of Halliburton common stock and KBR common stock for the valuation dates), and you could receive much less. Stated another way, if the maximum exchange ratio is not in effect, the formula for calculating the exchange ratio contemplates that, for each share of Halliburton common stock accepted in the exchange offer, you will receive a number of shares of KBR common stock calculated at a 7.5% discount to the per-share value of KBR common stock. However, if the maximum exchange ratio is in effect and you still decide to tender your shares of Halliburton common stock, you will exchange your shares of Halliburton common stock for shares of KBR common stock at a discount of less than 7.5% to the per-share value of KBR common stock and, depending upon the magnitude of the decrease in market value of KBR common stock relative to the market value of Halliburton common stock during the exchange offer period, you may be exchanging your shares of Halliburton common stock for shares of KBR common stock without any discount, or even at a premium, to the per-share value of KBR common stock (i.e., if the decrease in market value of KBR common stock relative to the market value of Halliburton common stock is substantial enough, you could receive less than \$1.00 of KBR common stock for every \$1.00 of Halliburton common stock accepted in the exchange offer).**

*Exchange Ratio Calculation.* The following formula will be used to calculate the number of shares of KBR common stock you will receive for shares of Halliburton common stock validly tendered and accepted in the exchange offer:

$$\begin{array}{ccccccc}
 \text{Number of} & & \text{Number of} & & & & \text{100\% of the final calculated} \\
 \text{shares of KBR} & & \text{shares of} & & & & \text{per-share value of} \\
 \text{common stock} & = & \text{Halliburton} & \times & \text{the} & & \text{Halliburton common stock} \\
 & & \text{common stock} & & \text{lesser} & \text{1.5905} & \text{divided by} \\
 & & \text{validly} & & \text{of:} & \text{(the maximum} & \text{92.5\% of the final} \\
 & & \text{tendered} & & & \text{exchange} & \text{calculated} \\
 & & \text{and accepted} & & & \text{ratio)} & \text{per-share value of KBR} \\
 & & & & & & \text{common stock}
 \end{array}$$

The final calculated per-share value of Halliburton common stock and the final calculated per-share value of KBR common stock will equal the arithmetic average of the daily VWAP for Halliburton common stock or KBR common stock, as applicable, for each of the valuation dates. Stated another way, the final calculated per-share value for each stock will be calculated by adding the daily VWAP of the applicable stock for each of the valuation dates and then calculating the average by dividing the resulting total by three. The valuation dates will be March 27, 2007, March 28, 2007 and March 29, 2007, unless the exchange offer is extended. The valuation dates will not change, however, if the exchange offer is extended solely as a result of the automatic extension triggered by the maximum exchange ratio.

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To help illustrate the way this calculation works, below are two examples:

*Example 1:* Assuming that the average of the daily VWAP for the valuation dates is \$31.16040 per share of Halliburton common stock and \$22.83983 per share of KBR common stock, you would receive 1.4749 shares (\$31.16040 divided by 92.5% of \$22.83983) of KBR common stock for each share of Halliburton common stock accepted in the exchange offer. In this example, the maximum exchange ratio of 1.5905 shares of KBR common stock for each share of Halliburton common stock would not be in effect.

*Example 2:* Assuming that the average of the daily VWAP for the valuation dates is \$34.27644 per share of Halliburton common stock and \$20.55585 per share of KBR common stock, the maximum exchange ratio of 1.5905 would be in effect and you would only receive 1.5905 shares of KBR common stock for each share of Halliburton common stock accepted in the exchange offer because the maximum exchange ratio is less than 1.8027 shares (\$34.27644 divided by 92.5% of \$20.55585) of KBR common stock for each share of Halliburton common stock. Because the maximum exchange ratio would be in effect, the exchange offer would be automatically extended until 12:00 midnight, New York City time, of the second following trading day, and the final exchange ratio would be fixed at the maximum exchange ratio.

You will be able to review indicative exchange ratios and indicative calculated per-share values of Halliburton common stock and KBR common stock and the final exchange ratio used to determine the number of shares of KBR common stock to be exchanged per share of Halliburton common stock as follows:

*Indicative calculated per-share values:* A web page will be maintained at [www.KBRexchange.com](http://www.KBRexchange.com) that will provide indicative exchange ratios and indicative calculated per-share values of Halliburton common stock and KBR common stock.

From the third to the seventeenth trading day of the exchange offer, the web page will show indicative calculated per-share values on each day, calculated as though that day were the expiration date of the exchange offer, of (i) Halliburton common stock, which will equal the average of the daily VWAP of Halliburton common stock on that day and each of the two prior trading days; and (ii) KBR common stock, which will equal the average of the daily VWAP of KBR common stock on that day and each of the two prior trading days. For example, after 4:30 p.m., New York City time, on March 6, 2007, the web page showed an indicative exchange ratio of 1.4921 based on the average of the daily VWAP of Halliburton common stock and KBR common stock on March 2, 2007, March 5, 2007 and March 6, 2007. The indicative exchange ratio will also reflect whether the maximum exchange ratio would have been in effect had such day been the original expiration date. During this period, the indicative calculated per-share values will be updated on each trading day by 4:30 p.m., New York City time. Such data will not, however, be included in the calculation of the calculated per-share value for either Halliburton common stock or KBR common stock to be used for determining the final exchange ratio.

On each of the valuation dates (when the per-share values of Halliburton common stock and KBR common stock are calculated for the purposes of determining the final exchange ratio for the exchange offer), the web page will provide indicative exchange ratios based on calculated per-share values of Halliburton common stock and KBR common stock which will equal, with respect to each stock, (1) on the first valuation date, the actual intra-day VWAP during the elapsed portion of that day; (2) on the second valuation date, the VWAP for the first valuation date averaged with the actual intra-day VWAP during the elapsed portion of the second valuation date; and (3) on the third valuation date, the VWAP for the first and second valuation dates averaged with the actual intra-day VWAP during the elapsed portion of the third valuation date.

Intra-day VWAP means VWAP for the period beginning at the official open of trading on the New York

Stock Exchange and ending as of the specific time in such day, as calculated by Xignite, Inc. During this period, the indicative exchange ratios and calculated per-share values will be updated on the website at 10:30 a.m., 1:30 p.m. and 4:30 p.m., New York City time, with the final exchange ratio available by 4:30 p.m., New York City time on the third valuation date. The data used to derive the intra-day VWAP during

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the valuation period will reflect a 20-minute reporting delay. The intra-day VWAP calculated by Xignite, Inc. may be different from volume-weighted average prices calculated by other sources or investors or other security holders own calculations of volume-weighted average prices.

*Final exchange ratio:* The final exchange ratio that shows the number of shares of KBR common stock that you will receive for each share of Halliburton common stock accepted in the exchange offer will be available at [www.KBRexchange.com](http://www.KBRexchange.com) by 4:30 p.m., New York City time, on the last day of the exchange offer period and will be separately announced by press release.

You may also contact the information agent to obtain these indicative exchange ratios and the final exchange ratio at its toll-free number provided on the back cover of this Prospectus Offer to Exchange.

Each of the VWAPs and exchange ratio calculations will be rounded to four decimal places, while calculated per-share values will be rounded to five decimal places.

Since the exchange offer expires at 12:00 midnight, New York City time, on the last day of the exchange offer period and the final exchange ratio will be announced by 4:30 p.m., New York City time, on the same day, you will be able to tender or withdraw your shares of Halliburton common stock after the final exchange ratio is determined. For more information on tendering and withdrawing your shares, please read Procedures for Tendering and Withdrawal Rights.

For purposes of illustration, the table below indicates the number of shares of KBR common stock that you would receive per share of Halliburton common stock, calculated using the methodology described above and taking into account the maximum exchange ratio described above, assuming a range of the daily VWAP of Halliburton common stock and KBR common stock. The first line of the table below shows the indicative calculated per-share values of Halliburton common stock and KBR common stock and the indicative exchange ratio that would have been in effect following the official close of trading on the New York Stock Exchange on March 1, 2007, based on the daily VWAPs of Halliburton common stock and KBR common stock on February 27, 2007, February 28, 2007 and March 1, 2007. The table also shows the effects of a 10% increase or decrease in either or both the indicative calculated per-share values of Halliburton common stock and KBR common stock based on changes relative to the indicative calculated per-share values on March 1, 2007.

Halliburton Common Stock	KBR Common Stock	Indicative Calculated per- Share Value of Halliburton Common Stock	Indicative Calculated per- Share Value of KBR Common Stock	Shares of KBR Common Stock	Calculated Value Ratio(1)
				Per Share of Halliburton Common Stock Tendered	
At March 1, 2007	At March 1, 2007	31.16040	22.83983	1.4749	1.08
Down 10%	Up 10%	28.04436	25.12381	1.2068	1.08



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Down 10%	Unchanged	28.04436	22.83983	1.3274	1.08
Down 10%	Down 10%	28.04436	20.55585	1.4749	1.08
Unchanged	Up 10%	31.16040	25.12381	1.3408	1.08
Unchanged	Unchanged	31.16040	22.83983	1.4749	1.08
Unchanged	Down 10%	31.16040	20.55585	1.5905(2)(a)	1.05
Up 10%	Up 10%	34.27644	25.12381	1.4749	1.08
Up 10%	Unchanged	34.27644	22.83983	1.5905(2)(b)	1.06
Up 10%	Down 10%	34.27644	20.55585	1.5905(2)(c)	0.95

(1) The Calculated Value Ratio equals (i) the indicative calculated per-share value of KBR common stock multiplied by the indicative exchange ratio, divided by (ii) the indicative calculated per-share value of Halliburton common stock.

(2) In each of these scenarios, the maximum exchange ratio of 1.5905 is in effect. Absent the maximum exchange ratio, the exchange ratio of shares of KBR common stock per Halliburton share tendered would have been 1.6388 in the case of (2)(a), 1.6224 in the case of (2)(b) and 1.8027 in the case of (2)(c). In each of these scenarios, Halliburton would announce by 4:30 p.m., New York City time, on the original expiration date that the maximum exchange ratio is in effect, and the final exchange ratio would be fixed

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at the maximum exchange ratio and the exchange offer would be automatically extended until 12:00 midnight, New York City time, of the second following trading day.

From November 16, 2006 (the first trading day of KBR common stock on the New York Stock Exchange) through March 1, 2007, the highest closing price of Halliburton common stock on the New York Stock Exchange was \$33.74 and the lowest closing price of KBR common stock on the New York Stock Exchange was \$20.75. If the calculated per-share values of Halliburton common stock and KBR common stock equaled these closing prices, the maximum exchange ratio would be in effect and you would receive only 1.5905 shares of KBR common stock for each share of Halliburton common stock accepted, and the value of such shares of KBR common stock, based on such KBR common stock price, would have been less than the value of Halliburton common stock accepted for exchange (approximately \$0.98 of KBR common stock for each \$1.00 of Halliburton common stock accepted for exchange).

If the trading price of Halliburton common stock were to increase during the valuation date period, the calculated per-share value of Halliburton common stock would likely be lower than the closing price of Halliburton common stock on the expiration date of the exchange offer. As a result, you may receive fewer shares of KBR common stock for each \$1.00 of Halliburton common stock that you validly tender than you would have if that per-share value were calculated on the basis of the closing price of Halliburton common stock on the expiration date. Similarly, if the trading price of KBR common stock were to decrease during the valuation period, the calculated per-share value of KBR common stock would likely be higher than the closing price of KBR common stock on the expiration date of the exchange offer. This could also result in your receiving fewer shares of KBR common stock for each \$1.00 of Halliburton common stock that you validly tender than you would have if that per-share value were calculated on the basis of the closing price of KBR common stock on the expiration date.

The number of shares of Halliburton common stock that may be accepted in the offer may be subject to proration. Halliburton holds 135,627,000 shares of KBR common stock. Depending on the number of shares of Halliburton common stock validly tendered in the exchange offer, and not properly withdrawn, and the final exchange ratio, determined as described above, Halliburton may have to limit the number of shares of Halliburton common stock that it accepts in the exchange offer through a proration process. Any proration of the number of shares accepted in the exchange offer will be determined on the basis of the proration mechanics described below under Proration; Odd-Lots.

Halliburton is mailing the Prospectus Offer to Exchange dated March 2, 2007 and related documents to:

persons who directly held certificates representing shares of Halliburton common stock, persons who held direct registration shares, and persons who held shares in a custodial account maintained by Computershare or HBOS on their behalf, in each case as of February 28, 2007;

the trustee for, and the independent fiduciary appointed under, each of the Halliburton Retirement and Savings Plan, the Halliburton Savings Plan, the Kellogg Brown & Root, Inc. Retirement and Savings Plan, and the Brown & Root, Inc. Employees Retirement and Savings Plan, on behalf of the employees and former employees of Halliburton who participate in those plans and their beneficiaries; and

brokers, dealers, commercial banks, trust companies and similar institutions, whose names or the names of whose nominees appear on Halliburton's stockholder list or, if applicable, who are listed as participants in the security position listing of DTC or any other clearing system for subsequent transmittal to beneficial owners of Halliburton common stock.

At February 22, 2007, there were 167,643,000 shares of KBR common stock outstanding, and 13 stockholders of record. In calculating the number of stockholders, KBR considers clearing agencies and security position listings as

one stockholder for each agency or listing.

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### **Proration; Odd-Lots**

If, upon the expiration of the exchange offer, Halliburton stockholders have validly tendered enough shares of Halliburton common stock such that Halliburton would be required to distribute more than 135,627,000 shares of KBR common stock in connection with the exchange offer, Halliburton will accept on a pro rata basis, in proportion to the number of shares tendered, all shares validly tendered and not properly withdrawn, except for tenders of odd-lots as described below.

Except as otherwise provided in this section, holders of odd-lots (less than 100 shares of Halliburton common stock) who validly tender all of their shares will not be subject to proration if they so request. If, however, you hold less than 100 shares of Halliburton common stock, but do not tender all of your shares, you will be subject to proration to the same extent as holders of more than 100 shares (and holders of odd-lots that do not request preferential treatment) if the exchange offer is oversubscribed. Holders of 100 or more shares of Halliburton common stock are not eligible for this preference and will be subject to proration, even if those holders have separate stock certificates representing less than 100 shares.

If you own an odd-lot of Halliburton common stock and wish to tender all of your shares of Halliburton common stock, you may request that your shares not be subject to proration. In order to request this preferential treatment, you should check the box entitled "Odd-Lot Shares" on the letter of transmittal. If you do not check the relevant box on the letter of transmittal, Halliburton may, in its sole discretion, determine not to subject your shares to proration if it is otherwise able to confirm that you own an odd-lot of Halliburton common stock and have tendered all of those shares, but is under no obligation to do so. If your odd-lot shares are held by a broker, dealer, commercial bank, trust company or similar institution for your account, you should contact that institution so that it can request such preferential treatment. If you hold an odd-lot through a custodial account with Computershare or HBOS, you are not entitled to this preferential treatment.

Proration for each tendering stockholder will be based on the number of shares of Halliburton common stock tendered by that stockholder in the exchange offer, after adjustment for tenders of odd-lots, and not on that stockholder's aggregate ownership of Halliburton common stock. Any shares of Halliburton common stock not accepted for exchange as a result of proration will be credited to the tendering holder's account in book-entry form promptly following the expiration or termination of the exchange offer, as applicable. Halliburton will announce the preliminary proration factor, if any, by press release by 9:00 a.m., New York City time, on the business day following the expiration of the exchange offer. Once it has determined the number of shares of Halliburton common stock validly tendered for exchange (including shares tendered under the guaranteed delivery procedures), Halliburton will announce the final results, including the final proration factor, if any, promptly after the determination is made.

For purposes of the exchange offer, a "business day" means any day other than a Saturday, Sunday or federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time.

### **Fractional Shares**

Fractional shares of KBR common stock will not be distributed in the exchange offer. The exchange agent, acting as agent for Halliburton's stockholders otherwise entitled to receive fractional shares of KBR common stock, will aggregate all fractional shares that would otherwise have been required to be distributed and cause them to be sold in the open market for the accounts of these stockholders. Any proceeds that the exchange agent realizes from that sale of the fractional shares will be distributed, less any brokerage commissions or other fees, to each stockholder entitled thereto in accordance with the stockholder's fractional interest in the aggregate number of shares sold.

None of Halliburton, KBR, the exchange agent or the dealer managers will guarantee any minimum proceeds from the sale of fractional shares of KBR common stock. **You will not receive any interest on any cash paid to you, even if there is a delay in making the payment.** In addition, a stockholder who receives cash in lieu of a fractional share of KBR common stock will generally recognize gain or loss for U.S. federal income tax purposes on the receipt of the cash to the extent that the cash received exceeds the tax basis

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allocated to the fractional share. You are urged to read carefully the discussion in U.S. Federal Income Tax Consequences and to consult your own tax advisor regarding the consequences to you of the exchange offer.

**Exchange of Shares of Halliburton Common Stock**

Upon the terms and subject to the conditions of the exchange offer (including, if the exchange offer is extended or amended, the terms and conditions of that extension or amendment), Halliburton will accept for exchange shares of Halliburton common stock validly tendered and not properly withdrawn before the expiration of the exchange offer and will exchange up to 135,627,000 shares of KBR common stock in the aggregate for such shares of Halliburton common stock promptly after the expiration date. Notwithstanding the immediately preceding sentence, and subject to applicable rules of the SEC, Halliburton expressly reserves the right to delay acceptance for exchange, or the exchange, of shares of Halliburton common stock in order to comply with any applicable law or obtain any governmental or regulatory approvals, in which event Halliburton would extend the period of time during which the exchange offer is open.

The exchange of shares of Halliburton common stock tendered and accepted for exchange will, in all cases, be made only after timely receipt by the exchange agent of:

(i) (a) share certificates representing all physically tendered Halliburton common stock; (b) proper instructions relating to direct registration shares to be tendered; and (c) in the case of shares delivered by book-entry transfer through DTC, confirmation of any book-entry transfer into the exchange agent's account at DTC of Halliburton common stock tendered by book-entry transfer;

(ii) a letter of transmittal, properly completed and duly executed (including any signature guarantees that may be required) or, in the case of shares delivered by book-entry transfer through DTC, an agent's message (as defined below); and

(iii) any other required documents.

With respect to shares held through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution will be required to timely deliver any necessary certificates, instructions, confirmation, letters or other documents with respect to the shares registered in its name in order for your shares to be deemed to have been timely received by the exchange agent.

For purposes of the exchange offer, Halliburton will be deemed to have accepted for exchange, and thereby exchanged, shares of Halliburton common stock validly tendered and not properly withdrawn if and when it notifies the exchange agent of its acceptance of the tenders of those shares of Halliburton common stock pursuant to the exchange offer. Once Halliburton accepts any of the shares of Halliburton common stock which have been tendered by a tendering stockholder pursuant to the exchange offer, each such tendering stockholder will be deemed to have accepted the shares of KBR common stock exchanged for such shares of Halliburton common stock and relinquished all rights with respect to the tendered shares of Halliburton common stock. Promptly after receipt of Halliburton's notice and determination of the final proration factor, the exchange agent will cause shares of KBR common stock to be credited in book-entry form to direct registration accounts maintained by KBR's transfer agent for the benefit of the tendering stockholders (or, in the case of shares tendered through DTC, to the account of DTC so that DTC can credit the relevant DTC participant and such participant can credit its respective account holders) in exchange for Halliburton shares tendered pursuant to the exchange offer and will deliver cash in lieu of a fractional share of KBR common stock to such holders. The exchange agent will act as agent for tendering stockholders for the purpose of causing the receipt of KBR common stock and any cash to be paid to them in lieu of a fractional share of KBR common stock.

If Halliburton does not accept for exchange any tendered Halliburton shares for any reason pursuant to the terms and conditions of the exchange offer, the exchange agent will cause such shares to be credited to tendering stockholders in book-entry form to direct registration share accounts maintained by the transfer agent for Halliburton (or, in the case of shares tendered through DTC, to the account of DTC so that DTC can credit the relevant DTC participant and such participant can credit its respective account holders), promptly following expiration or termination of the exchange offer as applicable.

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No share certificates are expected to be delivered to you, including in respect of any shares delivered to the exchange agent that were previously in certificated form.

### **Procedures for Tendering**

*Shares Held in Certificated Form.* If you hold certificates representing shares of Halliburton common stock, to validly tender such shares pursuant to the exchange offer, you must, before the expiration of the exchange offer, deliver to the exchange agent a properly completed and duly executed letter of transmittal, together with any required signature guarantees, the certificates representing the shares of Halliburton common stock tendered and any other required documents.

*Direct Registration Shares.* If you hold direct registration shares, you must, before the expiration of the exchange offer, deliver to the exchange agent a properly completed and duly executed letter of transmittal, together with any required signature guarantees. Since certificates are not issued for direct registration shares, you do not need to deliver any certificates representing those shares to the exchange agent.

*Shares Held Through a Broker, Dealer, Commercial Bank, Trust Company or Similar Institution.* If you hold shares of Halliburton common stock through a broker, dealer, commercial bank, trust company or similar institution, you should follow the instructions sent to you separately by that institution. You should not use the letter of transmittal to direct the tender of your shares of Halliburton common stock. If that institution holds shares through DTC, it must notify DTC and cause it to transfer the shares into the exchange agent's account in accordance with DTC's procedures. The institution must also ensure that the exchange agent receives a confirmation of book-entry transfer and an agent's message from DTC confirming the book-entry transfer of your shares of Halliburton common stock. A tender by book-entry transfer through DTC will be completed upon receipt by the exchange agent of an agent's message, book-entry confirmation from DTC and any other required documents. If you do not hold any certificates for these shares, you need not deliver any certificates representing those shares to the exchange agent.

The term "agent's message" means a message, transmitted by DTC to, and received by, the exchange agent, which states that DTC has received an express acknowledgment from the participant in DTC tendering the Halliburton shares that are the subject of the book-entry confirmation, that (i) the participant has received and agrees to be bound by the terms of the letter of transmittal filed as an exhibit to the registration statement of which this Prospectus—Offer to Exchange forms a part, (ii) the participant has provided certain information called for in the letter of transmittal and (iii) Halliburton may enforce that agreement against the participant.

The exchange agent will establish an account with respect to the shares of Halliburton common stock at DTC for purposes of the exchange offer within two business days after March 2, 2007, the issue date of this Prospectus—Offer to Exchange, and any financial institution that is a participant in DTC may make book-entry delivery of the shares of Halliburton common stock by causing DTC to transfer such shares into the exchange agent's account at DTC in accordance with DTC's procedure for the transfer. **Delivery of documents to DTC does not constitute delivery to the exchange agent.**

*Shares Held in Book-Entry Form Through DTC.* If you are a participant in DTC's book-entry transfer facility, you should follow the same procedures that are applicable to a person holding shares through a broker, dealer, commercial bank, trust company or similar institution as described above.

*Shares Held Through Halliburton and KBR Employee Benefit Plans.* If you are a participant in the Halliburton Retirement and Savings Plan, the Halliburton Savings Plan, the Kellogg Brown & Root, Inc. Retirement and Savings Plan, or the Brown & Root, Inc. Employees' Retirement and Savings Plan and have amounts invested in the



Halliburton Stock Fund under the applicable plan, no action is required by you with respect to such invested amounts. The decision whether to tender shares of Halliburton common stock held in the Halliburton Stock Fund under any of those plans will be made by an independent fiduciary appointed under those plans.

*Shares Held Through a Custodial Account Maintained by Computershare or HBOS.* If you have purchased Halliburton common stock under the Halliburton Employee Stock Purchase Plan or hold shares of

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Halliburton restricted stock that vested after July 23, 2006, Computershare holds those shares in a custodial account on your behalf, unless you have previously transferred those shares to a brokerage account or requested a stock certificate for those shares. If you have acquired Halliburton common stock under the Halliburton Company UK Employee Shares Purchase Plan that are no longer subject to forfeiture, HBOS holds those shares in a custodial account on your behalf, unless you have previously transferred those shares to a brokerage account or requested a stock certificate for those shares. You make the decision as to whether you wish to tender any of the shares you hold under these custodial accounts in the exchange offer; no fiduciary will make that decision on your behalf. The exchange agent will furnish you materials describing what action you need to take if you wish to tender any of the shares held in the custodial accounts maintained by Computershare or HBOS on your behalf.

*General Instructions.* **Do not send letters of transmittal or certificates for shares of Halliburton common stock to Halliburton, KBR, the dealer managers or the information agent.** Letters of transmittal and certificates should be sent only to the exchange agent and only to its address listed on the back cover of this Prospectus Offer to Exchange. In each case, stockholders must provide, and the exchange agent must receive before the expiration of the exchange offer, the shares and other documents applicable to such shares, as described above.

Trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity who sign the letter of transmittal, notice of guaranteed delivery or any certificates or stock powers must indicate the capacity in which they are signing and must submit proper evidence of their authority to act in that capacity unless waived by Halliburton. Certain other matters regarding signatures and endorsements are described in the letter of transmittal filed as an exhibit to the registration statement of which this Prospectus Offer to Exchange forms a part.

Where letters of transmittal are required, you must return an original executed copy of the letter of transmittal. **Signed facsimiles may not be used in lieu of the original.**

*Signature Guarantees.* You will not be required to provide signature guarantees on letters of transmittal if shares of Halliburton common stock are tendered either:

- by a registered Halliburton stockholder who has signed the letter of transmittal and has not completed the section entitled Special Issuance and Delivery Instructions in the letter of transmittal; or
- for the account of an eligible institution.

Otherwise, signatures on all letters of transmittal must be Medallion guaranteed by a firm which is a member of the Securities Transfer Agents Medallion Program, or by any other eligible guarantor institution, as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act) (each of the foregoing being an eligible institution).

If any certificates for shares of Halliburton common stock are registered in the name of a person other than the person who signs the letter of transmittal, the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates, with the signature(s) on the certificates or stock powers guaranteed by an eligible institution.

*Guaranteed Delivery Procedures.* If you wish to tender shares of Halliburton common stock pursuant to the exchange offer but (i) your certificates are not immediately available; (ii) you cannot deliver the shares or other required documents to the exchange agent on or before the expiration date of the exchange offer; or (iii) you cannot comply with the procedures for book-entry transfer on a timely basis, you may still tender your shares of Halliburton common stock, so long as all of the following conditions are satisfied:

you make your tender by or through an eligible institution;

by no later than 12:00 midnight, New York City time, on the expiration date, the exchange agent must receive a properly completed and duly executed notice of guaranteed delivery, substantially in the form made available by Halliburton, in the manner provided below; and

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by no later than 5:00 p.m., New York City time, on the third New York Stock Exchange trading days after the date of execution of such notice of guaranteed delivery, the exchange agent must receive (a) share certificates representing all tendered shares of Halliburton common stock, in proper form for transfer (or, with respect to shares tendered by book-entry transfer through DTC, a confirmation of book-entry transfer with respect to such shares into the exchange agent's account at DTC); (b) a letter of transmittal properly completed and duly executed (including any signature guarantees that may be required) or, in the case of a transfer of shares held through DTC, an agent's message and confirmation of book-entry transfer; and (c) any other required documents.

Registered stockholders (including any participant in DTC whose name appears on a DTC security position listing as the owner of shares of Halliburton common stock) may transmit the notice of guaranteed delivery by facsimile transmission or mail it to the exchange agent. If you hold shares of Halliburton common stock through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution must submit any notice of guaranteed delivery on your behalf. You must, in all cases, include a Medallion guarantee by an eligible institution in the form set forth in the notice of guaranteed delivery.

*Tendering Your Shares After the Final Exchange Ratio Has Been Determined.* Subject to any voluntary extension by Halliburton or the possible automatic extension of the exchange offer due to a market disruption event, the final exchange ratio will be available by 4:30 p.m., New York City time, on the original expiration date. If you are a registered stockholder of Halliburton common stock (which will include persons holding certificated shares or direct registration shares), then it is unlikely that you will be able to deliver an original executed letter of transmittal (and, in the case of certificated shares, your share certificates) to the exchange agent after 4:30 p.m. but prior to the expiration of the exchange offer at 12:00 midnight. Accordingly, in such a case, if you wish to tender your shares after the final exchange ratio has been determined, you will generally need to do so by means of delivering a notice of guaranteed delivery and complying with the guaranteed delivery procedures described above. You must, in all cases, obtain a Medallion guarantee from an eligible institution in the form set forth in the notice of guaranteed delivery in connection with the delivery of your shares in this manner. A Medallion guarantee can generally be obtained from an eligible institution only before the institution providing that guarantee has closed for the day. If you hold Halliburton common stock through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution must tender your shares on your behalf. DTC is expected to remain open until 5:00 p.m., New York City time, and institutions may be able to process tenders through DTC during that time (although we cannot assure you that will be the case). Once DTC has closed, participants in DTC whose name appears on a DTC security position listing as the owner of shares of Halliburton common stock, will still be able to tender shares by delivering a notice of guaranteed delivery to the exchange agent via facsimile. If you hold Halliburton common stock through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution or such institution's agent must submit any notice of guaranteed delivery on your behalf. It will generally not be possible to direct such an institution to submit a notice of guaranteed delivery once that institution has closed for the day. In addition, any such institution, if it is not an eligible institution, will need to obtain a Medallion guarantee from an eligible institution in the form set forth in the notice of guaranteed delivery in connection with the delivery of those shares. If the maximum exchange ratio is in effect at the expiration of the currently anticipated exchange offer period, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day to permit stockholders to tender their shares of Halliburton common stock during those days.

*Representations and Warranties.* A tender of shares of Halliburton common stock pursuant to any of the procedures described in this Prospectus Offer to Exchange will constitute your acceptance of the terms and conditions of the exchange offer and your representation and warranty to Halliburton that:

you have the full power and authority to tender, sell, assign and transfer the tendered shares;

when Halliburton accepts the shares for exchange pursuant to the exchange offer, Halliburton will acquire good and unencumbered title to such shares, free and clear of all liens, restrictions, charges and encumbrances;

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none of such shares will be subject to an adverse claim at the time Halliburton accepts such shares for exchange;

you have a net long position in the shares being tendered within the meaning of Rule 14e-4 promulgated under the Exchange Act as further explained below;

your participation in the exchange offer and tender of such shares complied with Rule 14e-4 and the applicable laws of both the jurisdiction where you received the materials relating to the exchange offer and the jurisdiction from which the tender is being made; and

For non-U.S. persons: you acknowledge that Halliburton has advised you that it has not taken any action under the laws of any country outside the United States to facilitate a public offer to exchange the KBR common stock in that country; that restrictions applicable in Australia, Canada, the European Economic Area, Hong Kong, Japan, Singapore and the United Kingdom are set out under the heading *The Exchange Offer Legal and Other Limitations; Certain Matters Relating to Non-U.S. Jurisdictions* in the Prospectus *Offer to Exchange*, and that there may be restrictions that apply in other countries, including with respect to transactions in KBR common stock in your home country; that, if you are located outside the United States, your ability to tender Halliburton common stock in the exchange offer will depend on whether there is an exemption available under the laws of your home country that would permit you to participate in the exchange offer without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise; that your participation in the exchange offer is made pursuant to and in compliance with the applicable laws in the jurisdiction in which you are a resident or from which you are tendering your shares and in a manner that will not require Halliburton to take any action to facilitate a public offering in that country or otherwise; and that Halliburton will rely on my representations concerning the legality of your participation in the exchange offer in determining to accept any shares that you are tendering for exchange.

In addition, as a tendering stockholder you will be required to provide certain information and make certain representations in the letter of transmittal or other transmittal forms about your beneficial ownership (if any) of shares of KBR common stock and the beneficial ownership of shares of KBR common stock by your affiliates and any persons with whom you may be acting pursuant to a plan or arrangement with respect to the acquisition of shares of KBR common stock. Halliburton will rely on those representations in determining whether to complete the exchange offer and in determining whether any tendering holder and its affiliates or any persons with whom a tendering holder may be acting would acquire beneficial ownership of shares of KBR common stock pursuant to the exchange offer in an amount that Halliburton reasonably expects would or would be likely to cause (i) the exchange offer to be taxable to Halliburton or its stockholders under U.S. federal income tax laws, (ii) an event of default to occur under KBR's revolving credit facility or (iii) a notification filing under the Hart-Scott-Rodino Act. **A tender of shares of Halliburton common stock pursuant to any of the procedures described in this Prospectus Offer to Exchange will constitute your agreement that you will be liable for all damages caused as a result of a breach of your representations regarding your beneficial ownership of shares of KBR common stock and the beneficial ownership of shares of KBR common stock by your affiliates and any persons with whom you may be acting pursuant to a plan or arrangement with respect to the acquisition of shares of KBR common stock, and your acknowledgement that such damages may be substantial.** Please read *Risk Factors Risks Relating to the Exchange Offer and any Subsequent Spin-Off* *If the exchange offer and any subsequent spin-off distribution fail to qualify as a tax-free transaction because of actions KBR takes or because of a change of control of KBR, KBR will be required to indemnify Halliburton for any resulting taxes, and this potential obligation to indemnify Halliburton may prevent or delay a change of control of KBR and Risks Relating to KBR Other Risks Relating to KBR* *It is an event of default under KBR's \$850 million revolving credit facility if a person other than Halliburton or KBR directly or indirectly acquires 25% or more of the ordinary voting equity interests of the borrower under the credit facility.*

It is a violation of Rule 14e-4 under the Exchange Act for a person, directly or indirectly, to tender shares of Halliburton common stock for such person's own account unless, at the time of tender, the person so tendering (i) has a net long position equal to or greater than the amount of (x) shares of Halliburton common

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stock tendered; or (y) other securities immediately convertible into or exchangeable or exercisable for the shares of Halliburton common stock tendered and such person will acquire such shares for tender by conversion, exchange or exercise; and (ii) will cause such shares to be delivered in accordance with the terms of this Prospectus Offer to Exchange. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

*Appointment of Attorneys-in-Fact.* By executing a letter of transmittal or other transmittal form as set forth above, you will irrevocably appoint Halliburton's designees as your attorneys-in-fact, each with full power of substitution, to the full extent of your rights with respect to your shares of Halliburton common stock tendered and accepted for exchange by Halliburton. That appointment will be effective, and voting rights will be affected, when and only to the extent that Halliburton deposits with the exchange agent the shares of KBR common stock payable as consideration for shares of Halliburton common stock that you have tendered. All such proxies shall be considered coupled with an interest in the tendered shares of Halliburton common stock and therefore shall not be revocable.

*Determination of Validity.* Halliburton will determine questions as to the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of shares of Halliburton common stock in its sole discretion, and its determination shall be final and binding. Halliburton reserves the absolute right to reject any and all tenders of shares of Halliburton common stock that it determines are not in proper form or the acceptance of or exchange for which may, in the opinion of its counsel, be unlawful. Halliburton also reserves the absolute right to waive any of the conditions of the exchange offer (other than the conditions relating to the absence of an injunction and the effectiveness of the registration statement for the KBR common stock to be distributed in the exchange offer), or any defect or irregularity in the tender of any shares of Halliburton common stock; provided that if Halliburton waives a particular condition, or type of defect or irregularity, it will do so with respect to all tendering holders as required by applicable rules of the SEC. **No tender of shares of Halliburton common stock is valid or deemed to be properly made until all defects and irregularities in tenders of such shares have been cured or waived. None of Halliburton, the dealer managers, the exchange agent, the information agent or any other person is or will be under any duty to give notice of any defects or irregularities in the tender of any shares of Halliburton common stock and none of them will incur any liability for failure to give any such notice.** Halliburton's interpretation of the terms and conditions of the exchange offer (including the letter of transmittal) will be final and binding.

*Binding Agreement.* The tender of shares of Halliburton common stock made pursuant to any method of delivery as described in this Prospectus-Offer to Exchange, together with Halliburton's acceptance for exchange of such shares pursuant to the procedures described in this Prospectus-Offer to Exchange under Procedures for Tendering, will constitute a binding agreement between Halliburton and the tendering holder upon the terms and subject to the conditions of the exchange offer. Subject to, and effective upon, Halliburton's acceptance of the tendered shares of exchange, you will have sold, assigned and transferred to Halliburton, or upon Halliburton's order, all right, title and interest in and to such shares.

No alternative, conditional or contingent tenders will be accepted. All tendering stockholders, by delivering a properly executed letter of transmittal or causing an agent's message to be delivered with respect to their shares, waive any right to receive any notice of acceptance of their shares of Halliburton common stock for exchange.

**The method used to deliver the shares of Halliburton common stock, the letter of transmittal and all other required documents, including delivery through DTC, is at your election and risk. Delivery of all such documents is not effective until the exchange agent receives such documents (including, in the case of a book-entry transfer through DTC, an agent's message and book-entry confirmation). Delivery of all such documents is not effective and risk of loss of the shares does not pass to the exchange agent until the exchange agent receives such documents (including, in the case of a book-entry transfer through DTC, an agent's message and a DTC confirmation). If delivery is by mail, it is recommended that you send such documents by properly**



**insured registered mail with return receipt requested. In all cases, you should allow sufficient time to ensure timely delivery.**

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### **Partial Tenders**

If you tender fewer than all the shares of Halliburton common stock evidenced by any share certificate you deliver to the exchange agent, then you will need to fill in the number of shares that you are tendering in the box entitled

Number of Shares Tendered under the heading Certificated Shares in the table on the first page of the letter of transmittal filed as an exhibit to the registration statement of which this Prospectus Offer to Exchange forms a part. In those cases, promptly after the expiration date, the exchange agent will credit the remainder of the common stock that were evidenced by the certificate(s) but not tendered to a direct registration share account in the name of the registered holder maintained by the Halliburton transfer agent, unless otherwise provided in Special Issuance and Delivery Instructions in the letter of transmittal filed as an exhibit to the registration statement of which this Prospectus Offer to Exchange forms a part. Unless you indicate otherwise in your letter of transmittal, all of the common stock represented by share certificates you deliver to the exchange agent will be deemed to have been tendered. No share certificates are expected to be delivered to you, including in respect of any shares delivered to the exchange agent that were previously in certificated form.

### **Lost or Destroyed Certificates**

If your certificate representing shares of Halliburton common stock has been lost, stolen, mutilated or destroyed, and you wish to tender your shares, you will need to provide the information required under the section Lost, Stolen, Mutilated or Destroyed Certificates included in the letter of transmittal filed as an exhibit to the registration statement of which this Prospectus Offer to Exchange forms a part. You will also need to pay a surety bond for your lost shares of Halliburton common stock which will cost approximately 3% of the market value of such shares plus a handling fee. Upon receipt of the completed letter of transmittal (appropriately notarized) with the required information and the surety bond payment, your Halliburton common stock will be included in the exchange offer, subject to Halliburton's acceptance of your tender for exchange.

### **Withdrawal Rights**

*Withdrawing Your Shares Prior to When the Final Exchange Ratio Has Been Determined.* Shares of Halliburton common stock tendered pursuant to the exchange offer may be withdrawn at any time before 12:00 midnight, New York City time, on the expiration date and, unless Halliburton has previously accepted them pursuant to the exchange offer, may also be withdrawn at any time after the expiration of 40 business days from the commencement of the exchange offer. Following the expiration date, once Halliburton accepts shares of Halliburton common stock pursuant to the exchange offer, your tender is irrevocable.

In order to withdraw your shares, you (or, if you hold your shares through a broker, dealer, commercial bank, trust company, custodian or similar institution, that institution on your behalf) must provide a written notice of withdrawal or facsimile transmission notice of withdrawal to the exchange agent at its address set forth on the back cover of this Prospectus-Offer to Exchange before 12:00 midnight, New York City time, on the expiration date, a form of which notice is filed as an exhibit to the registration statement of which this Prospectus Offer to Exchange forms a part and which is available from the information agent. Such notice must include your name, address, social security number, the certificate number(s) (if applicable) and the number of shares of Halliburton common stock to be withdrawn, and, if it is different from that of the person who tendered those shares, the name of the registered holder (which may be the institution through which you hold your shares, if applicable).

If you hold your shares through a broker, dealer, commercial bank, trust company, custodian or similar institution, you should consult that institution on the procedures you must comply with and the time by which such procedures must be completed in order for that institution to provide a written notice of withdrawal or facsimile notice of withdrawal to

the exchange agent on your behalf before 12:00 midnight, New York City time, on the expiration date. If you hold your shares through such an institution, that institution must deliver the notice of withdrawal with respect to any shares you wish to withdraw. In such a case, as a beneficial

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owner and not a registered stockholder, you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.

If certificates were delivered or otherwise identified to the exchange agent, the name of the registered holder and the serial numbers of the particular certificates evidencing the shares of Halliburton common stock withdrawn must also be furnished to the exchange agent, as stated above, before the shares represented by such certificates will be credited in book-entry form as described below in Extension; Termination; Amendment. If shares of Halliburton common stock were tendered pursuant to the procedures for book-entry tender discussed in Procedures for Tendering, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn shares and must otherwise comply with DTC's procedures.

**Halliburton will determine all questions as to the validity, form and eligibility (including time of receipt) of any notice of withdrawal in its sole discretion, and its determination shall be final and binding. None of Halliburton, the dealer managers, the exchange agent, the information agent or any other person is under any duty to give notice of any defects or irregularities in any notice of withdrawal and none of them will incur any liability for failure to give any such notice.**

Any shares of Halliburton common stock properly withdrawn will be deemed not to have been validly tendered for purposes of the exchange offer. However, you may re-tender withdrawn shares of Halliburton common stock by following one of the procedures discussed in Procedures for Tendering at any time before the expiration of the exchange offer.

*Withdrawing Your Shares After the Final Exchange Ratio Has Been Determined.* Subject to any voluntary extension by Halliburton or the possible automatic extension of the exchange offer due to a market disruption event, the final exchange ratio will be available by 4:30 p.m., New York City time, on the original expiration date. If you are a registered stockholder of Halliburton common stock (which will include persons holding certificated shares or direct registration shares) and you wish to withdraw your shares after the final exchange ratio has been determined, then you must deliver a written notice of withdrawal or facsimile transmission notice of withdrawal to the exchange agent prior to 12:00 midnight, New York City time, on the expiration date, in the form of the notice of withdrawal provided by Halliburton. Medallion guarantees will not be required for such withdrawal notices. If you hold Halliburton common stock through a broker, dealer, commercial bank, trust company, custodian or similar institution, any notice of withdrawal must be delivered by that institution on your behalf. DTC is expected to remain open until 5:00 p.m., New York City time, and institutions may be able to process withdrawals through DTC during that time (although we cannot assure you that will be the case). Once DTC has closed, if you beneficially own shares that were previously delivered through DTC, then in order to withdraw your shares the institution through which your shares are held must deliver a written notice of withdrawal or facsimile transmission notice of withdrawal to the exchange agent prior to 12:00 midnight, New York City time, on the expiration date. Such notice of withdrawal must be in the form of DTC's notice of withdrawal and must specify the name and number of the account at DTC to be credited with the withdrawn shares and must otherwise comply with DTC's procedures. Shares can be withdrawn only if the exchange agent receives a withdrawal notice directly from the relevant institution that tendered the shares through DTC. On the last day of the exchange offer, beneficial owners who cannot contact the institution through which they hold their shares will not be able to withdraw their shares. If the maximum exchange ratio is in effect at the expiration of the currently anticipated exchange offer period, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day, which will permit stockholders to withdraw their shares of Halliburton common stock during those days.

Except as otherwise provided above, any tender made under the exchange offer is irrevocable.

## **Delivery of KBR Common Stock; Book-Entry Accounts**

Physical certificates representing shares of KBR common stock will not be issued pursuant to the exchange offer. Rather than issuing physical certificates for such shares to tendering stockholders, the exchange agent will cause shares of KBR common stock to be credited in book-entry form to direct

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registration accounts maintained by KBR's transfer agent for the benefit of the respective holders (or, in the case of shares tendered through DTC, to the account of DTC so that DTC can credit the relevant DTC participant and such participant can credit its respective account holders). Promptly following the crediting of shares to your respective direct registration account, you will receive a statement from KBR's transfer agent evidencing your holdings, as well as general information on the book-entry form of ownership.

If (i) shares of KBR common stock are to be issued to a person other than the signer of the letter of transmittal, (ii) a check is to be issued in the name of, and/or shares of Halliburton common stock not tendered or not accepted for exchange in the exchange offer are to be issued or returned to, a person other than the signer of the letter of transmittal, or (iii) a check is to be mailed to a person other than the signer of the letter of transmittal or to an address other than that shown in the box on the first page of the letter of transmittal, then the appropriate instructions under Special Issuance and Delivery Instructions in the letter of transmittal filed as an exhibit to the registration statement of which this Prospectus Offer to Exchange forms a part will need to be completed. If no such instructions are given, all such shares not accepted for exchange in the exchange offer will be credited in book-entry form in the tendering stockholder's direct registration share account maintained by Halliburton's transfer agent.

With respect to any shares tendered through DTC, a stockholder may request that shares not exchanged be credited to a different account maintained at DTC by providing the appropriate instructions pursuant to DTC's applicable procedures. If no such instructions are given, all such common stock not accepted will be returned by crediting the same account at DTC as the account from which such shares of Halliburton common stock were delivered.

You are not required to maintain a book-entry direct registration account, and you may obtain a stock certificate for all or a portion of your shares of KBR common stock received as part of the exchange offer at no cost to you. To obtain instructions describing how you can obtain stock certificates you should contact KBR's transfer agent.

### **Extension; Termination; Amendment**

Halliburton expressly reserves the right, in its sole discretion, for any reason, which may include the non-satisfaction of any of the conditions to completion of the exchange offer described under Conditions to Completion of the Exchange Offer, to extend the period of time during which the exchange offer is open or to amend the terms of the exchange offer in any respect, including changing the method to be used to calculate the exchange ratio.

If Halliburton materially changes the terms of or information concerning the exchange offer, it will extend the exchange offer. The SEC has stated that, as a general rule, it believes that an offer should remain open for a minimum of five business days from the date that notice of a material change is first given. The length of time will depend on the particular facts and circumstances. Subject to the preceding paragraph, the exchange offer will be extended so that it remains open for a minimum of ten business days following the announcement if:

Halliburton changes the method for calculating the number of shares of KBR common stock offered in exchange for each share of Halliburton common stock, the number of shares of Halliburton common stock eligible for exchange or the dealer managers' fees; and

the exchange offer is scheduled to expire within ten business days of announcing any such change.

If any of the conditions indicated below under Conditions to Completion of the Exchange Offer have not been met on or before the expiration of the exchange offer, Halliburton expressly reserves the right, in its sole discretion, to extend the exchange offer or to terminate the exchange offer and not accept for exchange any shares of Halliburton common stock.

If Halliburton extends the exchange offer, is delayed in accepting any shares of Halliburton common stock or is unable to accept for exchange any shares of Halliburton common stock under the exchange offer for any reason, then, without affecting Halliburton's rights under the exchange offer, the exchange agent may,

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on Halliburton's behalf, retain all shares of Halliburton common stock tendered. These shares of Halliburton common stock may not be withdrawn except as described under **Withdrawal Rights** above. Halliburton's ability to delay acceptance of any shares of Halliburton common stock is subject to applicable law, which requires that Halliburton pay the consideration offered or return the shares of Halliburton common stock deposited promptly after the termination or withdrawal of the exchange offer.

Halliburton will issue a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day following any extension, amendment, non-acceptance or termination of the previously scheduled expiration date. Subject to applicable law (including Rules 13e-4(d), 13e-4(e)(3) and 14e-1 under the Exchange Act, which require that any material change in the information published, sent or given to stockholders in connection with the exchange offer be promptly disclosed to stockholders in a manner reasonably designed to inform them of the change) and without limiting the manner in which Halliburton may choose to make any public announcement, Halliburton has no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones Newswires or PR Newswire.

### **Automatic Extension**

*Maximum Exchange Ratio.* Halliburton will announce whether the maximum exchange ratio, which limits the number of shares of KBR common stock that can be received for each share of Halliburton common stock tendered, is in effect through [www.KBRexchange.com](http://www.KBRexchange.com) and by press release by 4:30 p.m., New York City time, on the original expiration date. If the maximum exchange ratio is in effect at that time, then the final exchange ratio will be fixed at the maximum exchange ratio and the exchange offer will be automatically extended until 12:00 midnight, New York City time, of the second following trading day, which will permit stockholders to tender or withdraw their shares of Halliburton common stock during those days.

*Market Disruption Event.* If a market disruption event occurs with respect to Halliburton common stock or KBR common stock on any of the valuation dates, the exchange offer period will be automatically extended and the per-share value of Halliburton common stock and KBR common stock will be determined on the immediately succeeding trading day or days, as the case may be, on which no market disruption event occurs with respect to both Halliburton common stock and KBR common stock. If, however, such a market disruption event occurs as specified above and continues for a period of at least three consecutive trading days, Halliburton may terminate the exchange offer if, in Halliburton's judgment, the continuing market disruption event has impaired the benefits of the exchange offer.

A market disruption event with respect to either Halliburton common stock or KBR common stock means a suspension, absence or material limitation of trading of such stock on the New York Stock Exchange for more than two hours of trading or a breakdown or failure in the price and trade reporting systems of the New York Stock Exchange as a result of which the reported trading prices for Halliburton common stock or KBR common stock, as the case may be, during any half-hour trading period during the principal trading session in the New York Stock Exchange are materially inaccurate, as determined by Halliburton in its sole discretion, on the day with respect to which such determination is being made. For purposes of such determination:

a limitation on the hours or number of days of trading will not constitute a market disruption event if it results from an announced change in the regular business hours of the New York Stock Exchange; and

limitations pursuant to New York Stock Exchange Rule 80A (or any applicable rule or regulation enacted or promulgated by the New York Stock Exchange, any other self-regulatory organization or the SEC of similar scope as determined by Halliburton or the exchange agent) on trading during significant market fluctuations will constitute a suspension, absence or material limitation of trading.



*General.* Halliburton will issue a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day following any such extension. Subject to applicable law (including Rules 13e-4(d), 13e-4(e)(3) and 14e-1 under the Exchange Act, which require that any material change in the information published, sent or given to stockholders in connection with the exchange offer be

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promptly disclosed to stockholders in a manner reasonably designed to inform them of the change) and without limiting the manner in which Halliburton may choose to make any public announcement, Halliburton has no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones Newswires or PR Newswire.

**Conditions to Completion of the Exchange Offer**

*Minimum Condition.* Halliburton will not be required to complete the exchange offer unless at least 40,688,100 shares of KBR common stock would be distributed in exchange for shares of Halliburton common stock that are validly tendered and not properly withdrawn prior to the expiration of the exchange offer. This number of shares of KBR common stock represented approximately 30% of the outstanding shares of KBR common stock held by Halliburton as of February 28, 2007.

*Other Conditions.* In addition, Halliburton will not be required to accept shares for exchange, and may extend, terminate or amend the exchange offer if:

any condition or event occurs, or Halliburton reasonably expects any condition or event to occur, which Halliburton reasonably believes would or would be likely to cause the exchange offer and, if applicable, any subsequent spin-off to be taxable to Halliburton or its stockholders under U.S. federal income tax laws;

the opinion of counsel to the effect that, for U.S. federal income tax purposes, the exchange offer and, if applicable, any subsequent spin-off, will generally be tax-free to Halliburton and its stockholders (except with respect to cash received in lieu of a fractional share) is withdrawn or otherwise ceases to be effective;

Halliburton reasonably expects that the completion of the exchange offer would result in any person or group of persons owning shares of KBR common stock in an amount that would or would be likely to cause (i) the exchange offer and/or, if applicable, any subsequent spin-off to be taxable to Halliburton or its stockholders under U.S. federal income tax laws or (ii) an event of default to occur under KBR's revolving credit facility;

Halliburton reasonably expects that the completion of the exchange offer would result in any person or group of persons acquiring shares of KBR common stock in an amount that would require a notification filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;

Halliburton notifies KBR that it is in good faith pursuing a transaction involving KBR (including, without limitation, a merger, consolidation, share sale or exchange, business combination, reorganization or recapitalization) that is reasonably likely to be consummated and is on terms that Halliburton and a majority of the independent directors of KBR determine, in their good faith judgment, to be more favorable to KBR and Halliburton than the exchange offer;

any of the following events occurs or will imminently occur:

any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market in the United States;

any extraordinary or material adverse change in U.S. financial markets generally, including, without limitation, a decline of at least 10% in either the Dow Jones Average of Industrial Stocks or the Standard & Poor's 500 Index from the closing level established on February 28, 2007;

a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States;

a commencement of a war (whether declared or undeclared), armed hostilities or other national or international calamity, including an act of terrorism, directly or indirectly involving the United States, which would reasonably be expected to affect materially and adversely, or to delay materially, the completion of the exchange offer;

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if any of the situations described in the immediately preceding four bullet points exists as of the date of the commencement of the exchange offer, the situation deteriorates materially;

a material adverse change in the business, prospects, condition (financial or other), results of operations or stock price of KBR;

a material adverse change in the business, prospects, condition (financial or other), results of operations or stock price of Halliburton;

any breaches of any of KBR's covenants or agreements with Halliburton described in Agreements Between Halliburton and KBR and Other Related Party Transactions, which breaches in the aggregate have had or are reasonably likely to have a material adverse effect on the expected benefits to Halliburton of the exchange offer;

any action, litigation, suit, claim or proceeding is instituted that would be reasonably likely to enjoin, prohibit, restrain, make illegal, make materially more costly or materially delay completion of the exchange offer;

any order, stay, judgment or decree is issued by any U.S. federal or state court, government, governmental authority or other regulatory or administrative authority having jurisdiction over Halliburton or KBR and is in effect, or any law, statute, rule, regulation, legislation, interpretation, governmental order or injunction shall have been enacted or enforced, any of which would reasonably be likely to restrain, prohibit or delay completion of the exchange offer or materially impair the contemplated benefits of the exchange offer to Halliburton or KBR;

the registration statement on Form S-4 of which this Prospectus Offer to Exchange is a part shall not have become effective under the Securities Act prior to 5:00 p.m., New York City time, on the expiration date of the exchange offer; or

any stop order suspending the effectiveness of the registration statement of which this Prospectus Offer to Exchange forms a part has been issued, or any proceeding for that purpose has been initiated by the SEC and not concluded or withdrawn; or

a market disruption event occurs with respect to Halliburton common stock or KBR common stock on any of the valuation dates and continues for a period of at least three consecutive trading days and such market disruption event has, in Halliburton's judgment, impaired the benefits of the exchange offer.

If any of the above events occurs, Halliburton may:

terminate the exchange offer and promptly return all tendered shares of Halliburton common stock to tendering stockholders;

extend the exchange offer and, subject to the withdrawal rights described under Withdrawal Rights above, retain all tendered shares of Halliburton common stock until the extended exchange offer expires;

amend the terms of the exchange offer; or

waive the unsatisfied condition (except the conditions relating to the absence of an injunction and the effectiveness of the registration statement for the KBR common stock to be distributed in the exchange offer) and, subject to any requirement to extend the period of time during which the exchange offer is open, complete the exchange offer.

These conditions are for the sole benefit of Halliburton. Halliburton may assert these conditions with respect to the exchange offer regardless of the circumstances giving rise to them. Halliburton may waive any condition in whole or in part at any time in its sole discretion, subject to applicable law. KBR has no right to waive any of the conditions to the exchange offer. Halliburton's failure to exercise its rights under any of the above conditions does not represent a waiver of these rights. Each right is an ongoing right which may be asserted at any time. However, all conditions to completion of the exchange offer must be satisfied or waived

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by Halliburton on or before the expiration of the exchange offer. Any determination by Halliburton concerning the conditions described above will be final and binding upon all parties.

If a stop order issued by the SEC is in effect with respect to the registration statement of which this Prospectus Offer to Exchange forms a part, Halliburton will not accept any shares of Halliburton common stock tendered and will not exchange shares of KBR common stock for any shares of Halliburton common stock.

## **Fees and Expenses**

Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. are acting as dealer managers in connection with the exchange offer. In that capacity, the dealer managers will, among other things, assist Halliburton in connection with the exchange offer. The dealer managers will receive a customary fee for their services as dealer managers and a transaction fee for their services as financial advisors to Halliburton, in addition to being reimbursed by Halliburton for their reasonable expenses, including attorneys' fees and disbursements, in connection with the exchange offer. Further, in connection with the exchange offer, Halliburton may pay Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. an incremental transaction fee based on the total number of shares tendered in the exchange offer and an incentive fee based on the subscription levels of the exchange offer and the implied exchange ratio. The dealer managers have in the past provided investment banking services to Halliburton and its affiliates and to KBR and its affiliates, including acting as lead underwriters in connection with the initial public offering of KBR common stock, for which the dealer managers received customary compensation. An affiliate of Credit Suisse Securities (USA) LLC is a lender and an affiliate of Goldman, Sachs & Co. was a lender under KBR's \$850 million revolving credit facility.

Halliburton and KBR have agreed to indemnify the dealer managers against specified liabilities related to this transaction, including liabilities under the federal securities laws, and to contribute to payments that the dealer managers may be required to make in respect thereof. In the ordinary course of business, the dealer managers are engaged in securities trading and brokerage activities as well as investment banking and financial advisory services. In the ordinary course of their trading and brokerage activities, the dealer managers and certain of their respective affiliates may from time to time hold positions of Halliburton common stock and/or KBR common stock in their respective proprietary accounts or those of their customers, and to the extent they hold shares of Halliburton common stock in these accounts at the time of the exchange offer, the dealer managers or certain of their respective affiliates may tender these shares in the exchange offer, although they will not receive any fees in connection with tenders for their proprietary accounts.

Halliburton has retained Georgeson Inc. to act as the information agent and Mellon Investor Services LLC to act as the exchange agent in connection with the exchange offer. The information agent may contact holders of shares of Halliburton common stock by mail, e-mail, telephone, facsimile transmission and personal interviews and may request brokers, dealers, commercial banks, trust companies and similar institutions and other nominee stockholders to forward materials relating to the exchange offer to beneficial owners. The information agent and the exchange agent each will receive reasonable compensation for their respective services, will be reimbursed for reasonable out-of-pocket expenses and will be indemnified against liabilities in connection with their services, including civil liabilities under the federal securities laws.

Neither the information agent nor the exchange agent has been retained to make solicitations or recommendations. The fees they receive will not be based on the number of shares of Halliburton common stock tendered under the exchange offer; however, the exchange agent will be compensated in part on the basis of the number of letters of transmittal received.

Other than fees paid to the dealer managers, the information agent and the exchange agent, Halliburton will not pay any fees or commissions to any broker or dealer or any other person for soliciting tenders of shares of Halliburton common stock under the exchange offer. Halliburton will, upon request, reimburse brokers, dealers, commercial banks, trust companies and similar institutions for reasonable and customary costs and expenses they incurred in forwarding materials to their customers.

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No broker, dealer, commercial bank, trust company or similar institution shall be deemed to be the agent of Halliburton, KBR, the dealer managers, the exchange agent or the information agent for purposes of the exchange offer.

**Legal and Other Limitations; Certain Matters Relating to Non-U.S. Jurisdictions**

*Legal and Other Limitations.* This document is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Halliburton common stock or KBR common stock in any jurisdiction in which the offer, sale or exchange is not permitted. If Halliburton learns of any U.S. jurisdiction where making the exchange offer or its acceptance would not be permitted, Halliburton intends to make a good faith effort to comply with the relevant law in order to enable such offer and acceptance to be permitted. If, after such good faith effort, Halliburton cannot comply with such law, Halliburton will determine whether the exchange offer will be made to and whether tenders will be accepted from or on behalf of persons who are holders of shares of Halliburton common stock residing in the jurisdiction.

In any jurisdiction in which the securities or blue sky laws require the exchange offer to be made by a licensed broker or dealer, the exchange offer may be made on Halliburton's behalf by one or more registered brokers or dealers licensed under the laws of such jurisdiction.

*Certain Matters Relating to Non-U.S. Jurisdictions.* Although Halliburton is mailing this Prospectus Offer to Exchange dated March 2, 2007 to its stockholders to the extent required by U.S. law, including to stockholders located outside the United States, this Prospectus Offer to Exchange is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Halliburton common stock or KBR common stock in any jurisdiction in which such offer, sale or exchange is not permitted. Countries outside the United States generally have their own legal requirements that govern securities offerings made to persons resident in those countries and often impose stringent requirements about the form and content of offers made to the general public. Halliburton has not taken any action under those non-U.S. regulations to facilitate a public offer to exchange the KBR common stock outside the United States. Therefore, the ability of any non-U.S. person to tender Halliburton common stock in the exchange offer will depend on whether there is an exemption available under the laws of such person's home country that would permit the person to participate in the exchange offer without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise. For example, some countries exempt transactions from the rules governing public offerings if they involve persons who meet certain eligibility requirements relating to their status as sophisticated or professional investors.

All tendering holders must make certain representations in the letter of transmittal, including (in the case of non-U.S. holders) as to the availability of an exemption under their home country laws that would allow them to participate without the need for Halliburton to take any action to facilitate a public offering in that country or otherwise. Halliburton will rely on those representations and, unless the exchange offer is terminated, plans to accept shares tendered by persons who properly complete the letter of transmittal and provide any other required documentation on a timely basis and as otherwise described herein.

The restrictions set out below apply to persons in the specified countries. There may be additional restrictions that apply in other countries. Non-U.S. stockholders should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries and, if they do participate, whether there are any restrictions or limitations on transactions in the KBR common stock that may apply in their home countries. Halliburton, KBR and the dealer managers cannot provide any assurance about whether such limitations may exist.



*Australia.* This Prospectus Offer to Exchange does not constitute a disclosure document under Part 6D.2 of the Australian Corporations Act and has not been, and will not be, lodged with the Australian Securities and Investments Commission. No offer of securities is being made in Australia, and the distribution or receipt of this document in Australia does not constitute an offer of securities capable of acceptance by any person in Australia, except in the limited circumstances described below relying on certain exemptions in section 708 of the Australian Corporations Act. This document only constitutes an offer in Australia for

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exchange of shares of KBR common stock to persons who are able to demonstrate that they fall within one or more of the following categories of investors ( Exempt Investors ):

(i) *professional investors* referred to in section 708(11) and as defined in section 9 of the Australian Corporations Act. For instance, this includes Australian financial services licensees, certain APRA regulated institutions, trustees of certain kinds of superannuation funds, persons who control at least \$10 million, listed entities, and certain investment funds;

(ii) *sophisticated investors* that meet the criteria set out in section 708(8) of the Australian Corporations Act. This includes persons who have a certificate from an accountant (issued in the last 6 months) to indicate that the person has net assets of at least A\$2.5 million, or gross income for each of the last 2 years of at least A\$250,000;

(iii) investors who receive the offer through an Australian financial services licensee, where all of the criteria set out in section 708(10) of the Australian Corporations Act are satisfied. These criteria relate (amongst other things) to the licensee's knowledge of the investor's experience in investing in securities; or

(iv) a senior manager of Halliburton (or a related body, including a subsidiary), their spouse, parent, child, brother or sister, or a body corporate controlled by any of those persons, as referred to in section 708(12) of the Australian Corporations Act. A senior manager is defined as a person (other than a director or secretary of the corporation) who makes, or participates in making, decisions that affect the whole or a substantial part of the business of the corporation; or has the capacity to affect significantly the corporation's financial standing.

The provisions of the Australian Corporations Act that define these categories of Exempt Investors are complex, and if you are in any doubt as to whether you fall within one of these categories, you should seek appropriate professional advice regarding these provisions.

As any offer for the exchange of shares of KBR common stock under this Prospectus Offer to Exchange will be made without disclosure in Australia under Part 6D.2, the offer of those securities for resale in Australia within 12 months of their sale may, under section 707(5) of the Australian Corporations Act, require disclosure to investors under Part 6D.2 if none of the exemptions in section 708 apply to that resale. Accordingly, any person to whom securities are sold pursuant to this document should not, within 12 months after the sale, offer (or transfer, assign or otherwise alienate) those securities to investors in Australia except in circumstances where disclosure to investors is not required under Part 6D.2 or unless a compliant disclosure document is prepared and lodged with the Australian Securities and Investments Commission. As noted above, Chapter 6D of the Australian Corporations Act is complex, and if in any doubt as to the application or effect of this legislation, you should confer with your professional advisors.

This document is intended to provide general information only and has been prepared by Halliburton and KBR without taking into account any particular person's objectives, financial situation or needs. Recipients should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Recipients should review and consider the contents of this document and obtain financial advice (or other appropriate professional advice) specific to their situation before making any decision to accept the transfer of the securities.

*Canada.* The exchange offer is not being made directly or indirectly in, nor is the exchange offer capable of acceptance from, Canada or by use of the mails, or any means or instrumentality of Canada and cannot be accepted by any such use, means or instrumentality or otherwise from within Canada. Copies of this Prospectus Offer to Exchange and any related offering documents are being mailed to holders of Halliburton common stock with registered addresses in Canada for information purposes only.

No prospectus, issuer bid circular or other filing in relation to the exchange offer or the KBR common stock to be exchanged pursuant thereto has been filed with any securities regulatory authority in Canada. Accordingly, the exchange offer may not be made in, and no KBR common stock to be exchanged pursuant to the exchange offer may be offered, sold, re-sold or delivered, directly or indirectly, in or into Canada in the

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absence of a prospectus and an issuer bid circular or an exemption from the prospectus and issuer bid requirements of the applicable securities legislation in Canada.

*European Economic Area.* In relation to each Relevant Member State, no offer to the public of any shares of KBR common stock as contemplated by this document may be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any such shares of KBR common stock may be made at any time under the following exemptions under the Prospectus Directive, to the extent those exemptions have been implemented in that Relevant Member State:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000; and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;
- (c) by any managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the dealer managers for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of such shares of KBR common stock shall result in a requirement for the publication by Halliburton or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer to the public in relation to any shares of KBR common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of KBR common stock to be offered so as to enable an investor to decide to exchange for any shares of KBR common stock, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

This Prospectus Offer to Exchange has been prepared on the basis that all offers of such shares of KBR common stock will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of such shares of KBR common stock. Accordingly any person making or intending to make any offer within the EEA of shares of KBR common stock which are the subject of the placement contemplated in this document should only do so in circumstances in which no obligation arises for Halliburton or any dealer manager to produce a prospectus for such offer. Neither Halliburton nor any dealer manager have authorized, nor do they authorize, the making of any offer of such shares of KBR common stock through any financial intermediary, other than offers made by the dealer managers which constitute the final placement of such shares of KBR common stock contemplated in this document.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any shares of KBR common stock under, the offer contemplated in this document will be deemed to have represented, warranted and agreed to and with the dealer managers and Halliburton that in the case of any shares of KBR common stock acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the shares of KBR common stock acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the dealer managers have been given to the offer or resale; or (ii) where shares of KBR common stock have been acquired by it on behalf of

persons in any Relevant Member State other than qualified investors, the offer of those shares of KBR common stock to it is not treated under the Prospectus Directive as having been made to such persons.

*Hong Kong.* No offer or sale of securities has been or will be made in Hong Kong, by means of any document other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap.

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571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. There has not been issued in Hong Kong or elsewhere any advertisement, invitation or document relating to KBR's common stock which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to KBR's securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

*Japan.* The exchange offer is not being made directly or indirectly in, nor is the exchange offer capable of acceptance from, Japan. Copies of this Prospectus Offer to Exchange and any related offering documents are being mailed to holders of Halliburton common stock with registered addresses in Japan for information purposes only.

*Singapore.* This Prospectus Offer to Exchange or any other offering material relating to shares of KBR common stock has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the shares of common stock will be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore (the Securities and Futures Act). Accordingly, this Prospectus Offer to Exchange and any other document or material relating to the offer or sale, or invitation for subscription or purchase, of the shares of KBR common stock may not be circulated or distributed, nor may the shares of KBR common stock be offered or sold, or be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act; (b) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the shares of common stock are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act; (2) where no consideration is given for the transfer; or (3) by operation of law.

*United Kingdom.* This Prospectus Offer to Exchange is only being distributed to and directed at (i) persons outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Order or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons, relevant persons). Shares of KBR common stock are only available to, and any invitation, offer or agreement to subscribe or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

**Table of Contents****SPIN-OFF DISTRIBUTION OF KBR COMMON STOCK**

Halliburton has informed KBR that, following the completion or termination of the exchange offer, it will make a special pro rata dividend distribution of any and all of its remaining shares of KBR common stock. The record date for holders to receive shares in any special spin-off distribution will be set promptly following the expiration of the exchange offer.

Fractional shares of KBR common stock will not be distributed in any spin-off distribution. The exchange agent, acting in its ongoing capacity as transfer agent for Halliburton's stockholders otherwise entitled to receive a fractional share of KBR common stock in any spin-off distribution, will aggregate all fractional shares that would have otherwise been required to be distributed and cause them to be sold in the open market for the accounts of these stockholders. Any proceeds that the exchange agent realizes in any spin-off distribution from the sale of the fractional shares will be distributed, less any brokerage commissions or other fees, to each stockholder entitled thereto in accordance with the stockholder's fractional interest in the aggregate number of shares sold. None of Halliburton, KBR or the exchange agent will guarantee any minimum proceeds from the sale of fractional shares of KBR common stock, and no interest would be paid on these proceeds, even if there is a delay in making the payment. Generally, a stockholder who receives cash in lieu of a fractional share of KBR common stock will recognize gain or loss for U.S. federal income tax purposes on the receipt of the cash to the extent that the cash received exceeds the tax basis allocated to the fractional share. You are urged to read carefully the discussion in U.S. Federal Income Tax Consequences and to consult your own tax advisor regarding the consequences to you of any spin-off distribution.

**MARKET PRICES AND DIVIDEND INFORMATION****Halliburton Common Stock**

The following table describes the per share range of high and low sales prices for shares of Halliburton common stock and dividends paid for the periods indicated. Shares of Halliburton common stock are listed on the New York Stock Exchange under the symbol HAL.

	<b>Market Price for Halliburton Common Stock</b>		<b>Dividend Paid for Share</b>
	<b>High</b>	<b>Low</b>	
2005			
First Quarter	\$ 22.65	\$ 18.59	\$ 0.0625
Second Quarter	24.70	19.83	\$ 0.0625
Third Quarter	34.89	22.88	\$ 0.0625
Fourth Quarter	34.69	27.35	\$ 0.0625
2006			
First Quarter	\$ 41.19	\$ 31.35	\$ 0.075
Second Quarter	41.99	33.92	\$ 0.075
Third Quarter	37.93	27.35	\$ 0.075
Fourth Quarter	34.30	26.33	\$ 0.075
2007			
First Quarter (through March 1, 2007)	\$ 32.30	\$ 27.65	\$

On February 16, 2007, there were 999,172,145 shares of Halliburton common stock outstanding, and approximately 20,292 stockholders of record for Halliburton common stock.

On March 1, 2007, the last New York Stock Exchange trading day before the filing of the registration statement of which this Prospectus-Offer to Exchange forms a part, the closing sales price per share of Halliburton common stock as reported by the New York Stock Exchange was \$31.34.



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The market prices of Halliburton common stock are subject to fluctuation. The final exchange ratio for the exchange offer will be set in part based on the per-share market price of Halliburton common stock. As a result, you should obtain current market quotations for the shares of Halliburton common stock before deciding to tender your shares of Halliburton common stock. Please read "The Exchange Offer" and "Terms of the Exchange Offer." No one can assure you what the market price of Halliburton common stock will be before, on or after the date on which the exchange offer is completed.

Halliburton's Board of Directors intends to consider the payment of quarterly dividends on the outstanding shares of Halliburton common stock in the future. The declaration and payment of future dividends, however, will be at the discretion of Halliburton's Board of Directors and will depend upon, among other things, future earnings, general financial condition and liquidity, success in business activities, capital requirements, and general business conditions.

**KBR Common Stock**

The following table describes the per share range of high and low sales prices for shares of KBR common stock for the periods indicated. Shares of KBR common stock are listed on the New York Stock Exchange under the symbol KBR.

	<b>Market Price for KBR Common Stock</b>	
	<b>High</b>	<b>Low</b>
2006		
Fourth Quarter (from November 16, 2006)	\$ 27.63	\$ 20.50
2007		
First Quarter (through March 1, 2007)	\$ 26.10	\$ 21.66

As of February 22, 2007, there were 167,643,000 shares of KBR common stock outstanding, and 13 stockholders of record for shares of KBR common stock. In calculating the number of stockholders, KBR considers clearing agencies and security position listings as one stockholder for each agency or listing. Immediately before the commencement of the exchange offer, Halliburton owned 135,627,000 of the outstanding shares of KBR common stock (representing approximately 81% of shares outstanding as of such date).

On March 1, 2007, the last New York Stock Exchange trading day before the filing of the registration statement of which this Prospectus-Offer to Exchange forms a part, the closing sales price per share of KBR common stock as reported by the New York Stock Exchange was \$22.66.

The market prices of KBR common stock are subject to fluctuation. The final exchange ratio for the exchange offer will be set in part based on the per-share market price of KBR common stock. As a result, you should obtain current market quotations for the shares of KBR common stock before deciding to tender your shares of Halliburton common stock. Please read "The Exchange Offer" and "Terms of the Exchange Offer." No one can assure you what the market price of KBR common stock will be before, on or after the date on which the exchange offer is completed.

KBR did not pay any dividends on its common stock in 2006 and does not anticipate paying any dividends on its common stock in the foreseeable future. Instead, KBR generally intends to invest any future earnings in its business. Subject to Delaware law, KBR's board of directors will determine the payment of future dividends on KBR common stock, if any, and the amount of any dividends in light of:

any applicable contractual restrictions limiting KBR's ability to pay dividends, including the restrictions in its revolving credit facility;

KBR's earnings and cash flow;

KBR's capital requirements;

KBR's financial condition; and

other factors KBR's board of directors deems relevant.

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The following tables set forth the cash and equivalents and the consolidated capitalization of Halliburton and KBR as of December 31, 2006. The tables should be read in conjunction with Summary Selected Historical Consolidated Financial Data of Halliburton and KBR, Management's Discussion and Analysis of Financial Condition and Results of Operations of KBR, the consolidated financial statements of KBR and related notes set forth in this Prospectus-Offer to Exchange and Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Halliburton's Annual Report on Form 10-K for the year ended December 31, 2006 and the consolidated financial statements of Halliburton and related notes set forth in Halliburton's Annual Report on Form 10-K for the year ended December 31, 2006, incorporated by reference herein. Please read Where You Can Find More Information About Halliburton and KBR.

**Halliburton**

	<b>December 31, 2006</b> <b>(In millions, except</b> <b>share amounts)</b>
Cash and equivalents	\$ 4,379
Total debt (including current maturities of long-term debt)	\$ 2,832
Shareholders' equity:	
Common stock, \$2.50 par value; authorized 2,000 million shares; outstanding 1,060 million shares	2,650
Paid-in capital in excess of par value	1,689
Accumulated other comprehensive income (loss)	(437)
Retained earnings	5,051
Less 62 million shares of treasury stock, at cost	(1,577)
Total shareholder's equity	7,376
<b>Total capitalization</b>	<b>\$ 10,208</b>

**KBR**

	<b>December 31, 2006</b> <b>(In millions, except</b> <b>share amounts)</b>
Cash and equivalents	\$ 1,461
Total debt (including current maturities of long-term debt)	\$ 20
Shareholders' equity:	
Preferred stock, \$0.001 par value; authorized 50 million shares; outstanding 0	
Common stock, \$0.001 par value; authorized 300 million shares; outstanding 168 million shares	

Paid-in capital in excess of par		2,051
Accumulated other comprehensive loss		(291)
Retained earnings		27
Total shareholders' equity		1,787
<b>Total capitalization</b>	\$	1,807

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**HALLIBURTON COMPANY UNAUDITED PRO FORMA  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed consolidated financial statements of Halliburton as of and for the year ended December 31, 2006 give effect to Halliburton's disposition of the 135,627,000 shares of KBR common stock it owns upon consummation of the exchange offer to which this Prospectus Offer to Exchange relates. Under the terms of the exchange offer, Halliburton is offering to exchange all of its shares of KBR common stock for outstanding shares of Halliburton common stock that are validly tendered and not properly withdrawn. Please read The Exchange Offer Terms of the Exchange Offer. For purposes of the unaudited pro forma condensed consolidated balance sheet we assume that the exchange offer was fully subscribed and occurred as of December 31, 2006, and for the unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2006 we assume that the exchange offer was fully subscribed and occurred on January 1, 2006.

We derived the unaudited pro forma condensed consolidated financial statements from the historical consolidated financial statements of Halliburton and KBR. These adjustments are based on currently available information and certain preliminary estimates and assumptions and, therefore, the actual effects of the exchange offer may differ from the effects reflected in the unaudited pro forma condensed consolidated financial statements. However, despite the fact that data is not available to make precise estimates, management believes that the assumptions provide a reasonable basis for presenting the significant effects of the exchange offer as contemplated and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed consolidated financial statements.

You should read the following information in conjunction with Selected Historical Consolidated Financial Data for Halliburton and KBR, and Halliburton's consolidated financial statements and the accompanying notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations section included in Halliburton's Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference into this Prospectus Offer to Exchange.

**Table of Contents****HALLIBURTON COMPANY****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET****As of December 31, 2006**

(\$ millions)

	<b>Halliburton Company Historical</b>	<b>Pro Forma Adjustments</b>	<b>(d) Intercompany Reclass</b>	<b>Halliburton Company Pro Forma</b>
Cash and equivalents	\$ 4,379	\$ (1,461)(a)	\$	\$ 2,918
Total receivables	4,674	(2,045)(a)		2,629
Other current assets	2,130	(388)(a)(e)		1,742
Total current assets	11,183	(3,894)		7,289
Property, plant, and equipment	3,048	(492)(a)		2,556
Other assets	2,589	(1,014)(a)(e)	152	1,727
Total assets	\$ 16,820	\$ (5,400)	\$ 152	\$ 11,572
Accounts payable	\$ 1,931	\$ (1,276)(a)	\$	\$ 655
Advanced billings on incomplete contracts	903	(903)(a)		
Other current liabilities	1,893	(800)(a)(e)	152	1,245
Total current liabilities	4,727	(2,979)	152	1,900
Long term debt	2,786	(2)(a)		2,784
Other liabilities	1,484	(461)(a)(e)		1,023
Total liabilities	8,997	(3,442)	152	5,707
Minority interest in consolidated subsidiaries	447	(378)(a)		69
Shareholders' equity				
Common stock	2,650			2,650
Paid-in-capital in excess of par value	1,689			1,689
Accumulated other comprehensive income	(437)	235 (a)		(202)
Retained earnings	5,051	1,052 (b)(e)		6,103
	8,953	1,287		10,240
Less treasury stock, at cost	(1,577)	(2,867)(c)		(4,444)
Total shareholders' equity	7,376	(1,580)		5,796