

UPDATE: DOJ Drops FCA Suit Against KBR

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In April, 2010, we [reported](#) to our readers that the U.S. Department of Justice had filed a \$100 million suit against Kellogg, Brown and Root (KBR) under the False Claims Act, for using private contractors to provide security for its employees and subcontractors who were supporting military troops in Iraq under its LOGCAP III contract.

On November 15, 2012, the U.S. Department of Justice informed the Judge hearing the matter that it had decided to drop the suit. No reason was given for its decision.

Meanwhile, we note that the company had to shell out big bucks for defense. We assume those costs will now be allowable, up to 80 percent of costs incurred, in its billings to the U.S. Army. (See the FAR Cost Principle addressing costs related to legal and other proceedings, 31.205-47.)

The other 20 percent of those costs will be unallowable, which means they will be paid for out of corporate profits. Obviously, we don't have any idea how much that amount is—but we know it won't be available for distribution to shareholders.