

FLUOR CORP
Form 10-Q
August 11, 2008
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2008**

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 1-16129

FLUOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0927079

(I.R.S. Employer
Identification No.)

**6700 Las Colinas Boulevard
Irving, Texas**

(Address of principal executive offices)

75039

(Zip Code)

469-398-7000

(Registrant's telephone number, including area code)

Edgar Filing: FLUOR CORP - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 31, 2008, 179,000,684 shares of the registrant's common stock, \$0.01 par value, were outstanding.

Table of Contents

FLUOR CORPORATION

FORM 10-Q

June 30, 2008

| TABLE OF CONTENTS | | PAGE |
|--------------------------|--------------------------|---|
| Part I: | Financial Information | |
| | Item 1: | Financial Statements |
| | | <u>Condensed Consolidated Statement of Earnings for the Three and Six Months Ended June 30, 2008 and 2007 (Unaudited)</u> 2 |
| | | <u>Condensed Consolidated Balance Sheet at June 30, 2008 and December 31, 2007 (Unaudited)</u> 3 |
| | | <u>Condensed Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2008 and 2007 (Unaudited)</u> 4 |
| | | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> 5 |
| | <u>Item 2:</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 13 |
| | <u>Item 3:</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> 19 |
| | <u>Item 4:</u> | <u>Controls and Procedures</u> 19 |
| | | <u>Changes in Consolidated Backlog (Unaudited)</u> 20 |
| Part II: | <u>Other Information</u> | |
| | <u>Item 1:</u> | <u>Legal Proceedings</u> 21 |
| | <u>Item 1A:</u> | <u>Risk Factors</u> 21 |
| | <u>Item 2:</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 21 |
| | <u>Item 6:</u> | <u>Exhibits</u> 22 |
| | <u>Signatures</u> | 24 |

Table of Contents**FLUOR CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF EARNINGS**

UNAUDITED

| (in thousands, except per share amounts) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------------|-----------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| TOTAL REVENUE | \$ 5,773,570 | \$ 4,221,538 | \$ 10,580,551 | \$ 7,863,342 |
| TOTAL COST OF REVENUE | | | | |
| Cost of revenue | 5,460,397 | 4,034,329 | 10,018,229 | 7,498,649 |
| Gain on sale of joint venture interest | (79,209) | -- | (79,209) | -- |
| OTHER (INCOME) AND EXPENSES | | | | |
| Corporate administrative and general expense | 61,698 | 51,752 | 101,218 | 97,118 |
| Interest expense | 3,434 | 6,534 | 6,540 | 12,400 |
| Interest income | (17,720) | (14,636) | (32,931) | (24,677) |
| Total Cost and Expenses | 5,428,600 | 4,077,979 | 10,013,847 | 7,583,490 |
| EARNINGS BEFORE TAXES | 344,970 | 143,559 | 566,704 | 279,852 |
| INCOME TAX EXPENSE | 135,720 | 47,995 | 219,442 | 99,672 |
| NET EARNINGS | \$ 209,250 | \$ 95,564 | \$ 347,262 | \$ 180,180 |
| EARNINGS PER SHARE* | | | | |
| BASIC | \$ 1.19 | \$ 0.55 | \$ 1.97 | \$ 1.03 |
| DILUTED | \$ 1.13 | \$ 0.53 | \$ 1.88 | \$ 1.00 |
| SHARES USED TO CALCULATE EARNINGS PER SHARE* | | | | |
| BASIC | 176,268 | 174,350 | 175,983 | 174,139 |
| DILUTED | 185,146 | 181,660 | 184,408 | 180,778 |
| DIVIDENDS DECLARED PER SHARE* | \$ 0.125 | \$ 0.10 | \$ 0.25 | \$ 0.20 |

* All share and per share amounts were adjusted for the July 16, 2008 two-for-one stock split.

See Notes to Condensed Consolidated Financial Statements

Table of Contents

FLUOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

UNAUDITED

| (in thousands, except share amounts) | June 30 2008 | December 31 2007 * |
|---|-----------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,485,583 | \$ 1,175,144 |
| Marketable securities | 867,546 | 539,242 |
| Accounts and notes receivable | 1,081,907 | 946,565 |
| Contract work in progress | 1,090,925 | 977,945 |
| Deferred taxes | 162,013 | 151,028 |
| Other current assets | 231,586 | 269,576 |
| Total current assets | 4,919,560 | 4,059,500 |
| Property, plant and equipment (net of accumulated depreciation of \$669,616 and \$614,807, respectively) | | |
| Investments and goodwill | 809,998 | 784,387 |
| Deferred taxes | 283,486 | 263,062 |
| Deferred compensation trusts | 284,015 | 309,141 |
| Other | 255,784 | 275,317 |
| | 117,210 | 104,772 |
| | \$ 6,670,053 | \$ 5,796,179 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities | | |
| Trade accounts payable | \$ 1,156,609 | \$ 985,247 |
| Convertible senior notes | 302,117 | 307,222 |
| Advance billings on contracts | 1,082,769 | 772,485 |
| Accrued salaries, wages and benefits | 534,682 | 507,198 |
| Other accrued liabilities | 320,960 | 287,942 |
| Total current liabilities | 3,397,137 | 2,860,094 |
| Long-term debt due after one year | | |
| Non-current liabilities | 17,713 | 17,704 |
| Contingencies and commitments | 636,803 | 643,922 |
| Shareholders equity | | |
| Capital stock | | |
| Preferred authorized 20,000,000 shares (\$0.01 par value); none issued | -- | -- |
| Common authorized 375,000,000 shares (\$0.01 par value); issued and outstanding 177,571,686** and 177,364,640** shares in 2008 and 2007, respectively | 1,776 | 1,774 |
| Additional capital | 734,578 | 705,241 |

Edgar Filing: FLUOR CORP - Form 10-Q

| | | |
|--------------------------------------|--------------|--------------|
| Accumulated other comprehensive loss | (62,379) | (74,172) |
| Retained earnings | 1,944,425 | 1,641,616 |
| Total shareholders' equity | 2,618,400 | 2,274,459 |
| | \$ 6,670,053 | \$ 5,796,179 |

* Amounts at December 31, 2007 are based on audited financial statements.

** Share amounts have been adjusted to reflect the effect of the July 16, 2008 two-for-one stock split for both periods.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**FLUOR CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****UNAUDITED**

| (in thousands) | Six Months Ended June 30 | |
|---|--------------------------|------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | \$ 347,262 | \$ 180,180 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | |
| Depreciation of fixed assets | 78,527 | 70,053 |
| Amortization of intangibles | 890 | 978 |
| Gain on sale of joint venture interest | (79,209) | -- |
| Restricted stock and stock option amortization | 18,040 | 15,698 |
| Minority interest | 8,113 | (5,569) |
| Deferred compensation trust | 19,533 | (15,635) |
| Deferred compensation obligation | (16,134) | 20,849 |
| Taxes paid on vested restricted stock | (15,340) | (9,283) |
| Deferred taxes | 2,939 | (40,947) |
| Stock option tax benefit | (14,855) | (9,605) |
| Retirement plan accrual, net of contributions | 5,007 | 7,046 |
| Decrease in unbilled fees receivable | -- | 118,162 |
| Changes in operating assets and liabilities | 335,244 | 185,938 |
| Equity in earnings of investees | (5,989) | (5,293) |
| Currency translation | (4,480) | 8,666 |
| Other items | 2,030 | (5,531) |
| Cash provided by operating activities | 681,578 | 515,707 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (127,097) | (120,645) |
| Proceeds from disposal of property, plant and equipment | 20,273 | 28,319 |
| Purchases of marketable securities | (1,065,067) | (234,300) |
| Proceeds from maturities of marketable securities | 722,123 | -- |
| Investments | (2,123) | (57) |
| Proceeds from sale of joint venture interest | 79,209 | -- |
| Other items | (1,248) | (796) |
| Cash utilized by investing activities | (373,930) | (327,479) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of non-recourse project financing | -- | 51,150 |
| Capital contribution from joint venture partners | 3,872 | -- |

Edgar Filing: FLUOR CORP - Form 10-Q

| | | |
|--|--------------|--------------|
| Repayment of convertible debt | (5,105) | -- |
| Stock options exercised | 12,203 | 6,380 |
| Stock option tax benefit | 14,855 | 9,605 |
| Dividends paid | (44,453) | (34,988) |
| Other items | 999 | (9) |
| Cash (utilized) provided by financing activities | (17,629) | 32,138 |
| Effect of exchange rate changes on cash | 20,420 | 23,239 |
| Increase in cash and cash equivalents | 310,439 | 243,605 |
| Cash and cash equivalents at beginning of period | 1,175,144 | 976,050 |
| Cash and cash equivalents at end of period | \$ 1,485,583 | \$ 1,219,655 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(1) The Condensed Consolidated Financial Statements do not include footnotes and certain financial information normally presented annually under accounting principles generally accepted in the United States, and therefore should be read in conjunction with the company's December 31, 2007 annual report on Form 10-K. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of results that can be expected for the full year.

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are necessary to present fairly its consolidated financial position at June 30, 2008 and its consolidated results of operations for the three and six months ended June 30, 2008 and 2007 and its cash flows for the six months ended June 30, 2008 and 2007.

On May 7, 2008, the Board of Directors approved a two-for-one stock split that was paid in the form of a stock dividend on July 16, 2008 to shareholders of record on June 16, 2008. The stock split was accounted for by transferring approximately \$0.9 million from additional paid-in capital to common stock. All share and per share data (except par value) have been adjusted to reflect the effect of the stock split for all periods presented. The number of shares of common stock issuable upon exercise of outstanding stock options, vesting of other stock awards and the number of shares reserved for issuance under our convertible notes and various employee benefit plans were proportionately increased in accordance with the terms of the respective plans.

Certain 2007 amounts have been reclassified to conform with the 2008 presentation.

(2) *Recent Accounting Pronouncements:*

In April 2007, the Financial Accounting Standards Boards (FASB) issued Staff Position (FSP) FIN No. 39-1, Amendment of FASB Interpretation No. 39 (FIN 39-1), to amend FIN No. 39, Offsetting of Amounts Related to Certain Contracts (FIN 39). This FSP permits offsetting of fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. On January 1, 2008, the company adopted a policy to offset fair value amounts for multiple derivative instruments executed with the same counterparty under a master netting arrangement, which did not have a material impact on the company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141R, Business Combinations (SFAS 141R). SFAS 141R replaces SFAS 141 and establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets

Edgar Filing: FLUOR CORP - Form 10-Q

acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired in its financial statements. This standard is effective, on a prospective basis, for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This standard is effective for fiscal years beginning after December 15, 2008. Management is currently evaluating the impact on the company's financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. This standard is effective for fiscal years beginning after November 15, 2008. Management is currently evaluating the impact on the company's financial statements.

Table of Contents**FLUOR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

In March 2008, the FASB approved Staff Position APB 14-a, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-a). FSP APB 14-a requires the issuer of a convertible debt instrument to separately account for the liability and equity components in a manner that reflects the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-a is effective for financial statements issued for fiscal years beginning after December 15, 2008 and would be applied retrospectively to all periods presented. Management is currently evaluating the impact on the company's financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. Management is currently evaluating the impact on the company's financial statements.

(3) The components of comprehensive income, net of related tax, are as follows:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | 2008 | June 30 2007 | 2008 | June 30 2007 |
| Net earnings | \$ 209,250 | \$ 95,564 | \$ 347,262 | \$ 180,180 |
| Foreign currency translation adjustment | 2,352 | 22,879 | 7,662 | 23,425 |
| Amortization of net actuarial loss from pension plans | 2,077 | 1,878 | 4,131 | 4,464 |
| Comprehensive income | \$ 213,679 | \$ 120,321 | \$ 359,055 | \$ 208,069 |

(4) The effective tax rate, based on the company's actual operating results for the three and six months ended June 30, 2008 was approximately 39 percent, compared to approximately 33 percent and 36 percent, respectively, for the corresponding periods of 2007. The lower effective tax rate for the three and six months ended June 30, 2007 was primarily attributable to the recognition of previously unrecognized tax benefits and the reversal of certain valuation allowances associated with foreign net operating losses.

Edgar Filing: FLUOR CORP - Form 10-Q

The company conducts business globally and, as a result, the company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Canada, the Netherlands, South Africa, the United Kingdom and the United States. Although the company believes its reserves for its tax positions are reasonable, the final outcome of tax audits could be materially different, both favorably and unfavorably. With few exceptions, the company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2001.

(5) Cash paid for interest was \$6.6 million and \$5.0 million for the six months ended June 30, 2008 and 2007, respectively. Income tax payments, net of receipts, were \$159.1 million and \$105.1 million during the six-month periods ended June 30, 2008 and 2007, respectively.

(6) As discussed above, the company effected a two-for-one stock split that was paid on July 16, 2008 in the form of a stock dividend. Accordingly, the computations of basic and diluted earnings per share have been adjusted retroactively for all periods presented to reflect the July 16, 2008 stock split.

Table of Contents**FLUOR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

Dilutive securities included in the determination of shares used to compute diluted earnings per share (EPS) are as follows:

| (shares in thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-------|-----------------------------|-------|
| | 2008 | 2007 | 2008 | 2007 |
| Employee stock options and restricted stock | 1,276 | 1,438 | 1,309 | 1,482 |
| Conversion equivalent of dilutive convertible debt | 7,602 | 5,872 | 7,116 | 5,157 |
| Total | 8,878 | 7,310 | 8,425 | 6,639 |

(7) In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a common definition for fair value to be applied, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosure about such fair value measurements. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities under an instrument-by-instrument election. The company's adoption of SFAS 159 on January 1, 2008, did not have a material impact on its financial position, results of operations or cash flows.

The following table presents, for each of the fair value hierarchy levels required under SFAS No. 157, the company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2008:

| (in millions) | Total | Fair Value Measurements Using | | |
|------------------|---------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Debt securities* | \$ 49.9 | \$ 49.9 | \$ -- | \$ -- |

* Debt securities of \$36.3 million are classified as current assets in marketable securities on the Condensed Consolidated Balance Sheet. The remaining \$13.6 million is non-current and is therefore included in other assets on the Condensed Consolidated Balance Sheet.

(8) Operating information by segment is as follows:

| External Revenue (in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------|-------------------------------|------------|-----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Oil & Gas | \$ 3,342.2 | \$ 2,140.9 | \$ 5,945.5 | \$ 3,822.5 |
| Industrial & Infrastructure | 912.5 | 877.2 | 1,708.7 | 1,650.6 |
| Government | 300.4 | 325.1 | 580.1 | 671.0 |
| Global Services | 696.1 | 598.1 | 1,402.3 | 1,232.7 |
| Power | 522.4 | 280.2 | 944.0 | 486.5 |
| Total external revenue | \$ 5,773.6 | \$ 4,221.5 | \$ 10,580.6 | \$ 7,863.3 |

Table of Contents**FLUOR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

| Operating Profit (in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------|-------------------------------|----------|-----------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Oil & Gas | \$ 169.0 | \$ 100.5 | \$ 306.5 | \$ 188.8 |
| Industrial & Infrastructure | 121.4 | 22.6 | 150.8 | 43.7 |
| Government | 11.1 | 9.4 | 18.8 | 25.8 |
| Global Services | 66.1 | 48.2 | 119.6 | 95.1 |
| Power | 24.8 | 6.5 | 45.8 | 11.3 |
| Total operating profit | \$ 392.4 | \$ 187.2 | \$ 641.5 | \$ 364.7 |

Operating profit for the Industrial & Infrastructure segment for the three and six months ended June 30, 2008 included a pre-tax gain of \$79.2 million from the sale of a joint venture interest in a wind power project in the United Kingdom.

A reconciliation of the segment information to consolidated amounts is as follows:

| (in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|----------|-----------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Total segment operating profit | \$ 392.4 | \$ 187.2 | \$ 641.5 | \$ 364.7 |
| Corporate administrative and general expense | (61.7) | (51.7) | (101.2) | (97.1) |
| Interest income, net | 14.3 | 8.1 | 26.4 | 12.3 |
| Earnings before taxes | \$ 345.0 | \$ 143.6 | \$ 566.7 | \$ 279.9 |

Total assets in the Oil & Gas segment increased to \$1.2 billion at June 30, 2008 from \$891 million at December 31, 2007 primarily due to an increased level of project execution activities.

(9) In February 2004, the company issued \$330 million of 1.5 percent Convertible Senior Notes (the Notes) due February 15, 2024 and received proceeds of \$323 million, net of underwriting discounts. In December 2004, the company irrevocably elected to pay the principal amount of the Notes in cash. Notes are convertible if a specified trading price of the company's common stock (the trigger price) is achieved and maintained

for a specified period. The trigger price condition has been satisfied during each period since the fourth quarter of 2005 and the Notes have therefore been classified as short-term debt as of June 30, 2008 and December 31, 2007. During the three and six months ended June 30, 2008, holders converted \$5.1 million of the Notes in exchange for the principal balance owed in cash plus 114,756 shares of the company's common stock. Subsequently, in July 2008, holders converted an additional \$58 million of the Notes in exchange for the principal balance owed in cash plus 1,429,173 shares of the company's common stock.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(10) Net periodic pension expense for defined benefit pension plans includes the following components:

| (in thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------------------|-------------------------------|----------|-----------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 9,669 | \$ 9,722 | \$ 19,300 | \$ 19,370 |
| Interest cost | 15,791 | 13,192 | 31,412 | 26,240 |
| Expected return on assets | (19,923) | (17,424) | (39,664) | (34,653) |
| Amortization of prior service cost | 3 | (24) | 5 | (47) |
| Recognized net actuarial loss | 3,319 | 4,196 | 6,604 | 8,356 |
| Net periodic pension expense | \$ 8,859 | \$ 9,662 | \$ 17,657 | \$ 19,266 |

The company currently expects to contribute approximately \$50 million to \$75 million into its defined benefit pension plans during 2008. During the six months ended June 30, 2008, contributions of approximately \$13 million were made by the company.

Net periodic postretirement benefit cost includes the following components:

| (in thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------|-----------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ -- | \$ -- | \$ -- | \$ -- |
| Interest cost | 350 | 352 | 700 | 702 |
| Expected return on assets | -- | -- | -- | -- |
| Amortization of prior service cost | -- | -- | -- | -- |
| Recognized net actuarial loss | 352 | 226 | 704 | 451 |
| Net periodic postretirement benefit cost | \$ 702 | \$ 578 | \$ 1,404 | \$ 1,153 |

The preceding information does not include amounts related to benefit plans applicable to employees associated with certain contracts with the U.S. Department of Energy because the company is not responsible for the current or future funded status of these plans.

(11) The company's director and executive stock plans are described, and informational disclosures provided, in the notes to the Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2007. Restricted stock units and restricted stock awards totaling 434,201 shares and 390,590 shares were granted in the six months ended June 30, 2008 and 2007, respectively, at weighted average per share prices of \$66 and \$45, respectively. The awards for 2008 and 2007 vest ratably over three and five years, respectively. During the first half of 2008 and 2007, options for the purchase of 548,538 shares at a weighted average price of \$68 per share and 843,640 shares at a weighted average price of \$45 per share, respectively, were awarded. The option awards for 2008 and 2007 vest ratably over three and five years, respectively. The option awards expire ten years after the grant date.

(12) The company and certain of its subsidiaries are involved in litigation in the ordinary course of business. Additionally, the company and certain of its subsidiaries are contingently liable for commitments and performance guarantees arising in the ordinary course of business. The company and certain of our clients have claims arising from the performance under our contracts. The company recognizes certain significant claims for recovery of incurred cost when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. Recognized claims against clients amounted to \$222 million and \$246 million at June 30, 2008 and December 31, 2007, respectively, and are primarily included in contract work in progress in

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

the accompanying Condensed Consolidated Balance Sheet. Amounts ultimately realized from claims could differ materially from the balances included in the financial statements. The company does not expect that claim recoveries will have a material adverse effect on its consolidated financial position or results of operations.

As of June 30, 2008, several matters were in the litigation and dispute resolution process. The following discussion provides a background and current status of these matters:

Infrastructure Joint Venture Project

The company participates in a 50/50 joint venture that is executing a fixed-price transportation infrastructure project in California. The project continues to be subject to circumstances resulting in additional cost including owner-directed scope changes leading to quantity growth, cost escalation, additional labor and schedule delays. The company continues to evaluate the impact of these circumstances on estimated total project cost, as well as claims for recoveries and other contingencies on the project. As of June 30, 2008, the company has recognized in cost and revenue its \$52 million proportionate share of \$104 million of cost relating to claims recognized by the joint venture. Total claims-related cost incurred, as well as claims submitted to the client by the joint venture, are in excess of the \$104 million of recognized cost. The project opened to traffic in November 2007 and is expected to be completed in the third quarter of 2008.

As of June 30, 2008, the client withheld liquidated damages totaling \$51 million from amounts otherwise due the joint venture and has asserted additional claims against the joint venture. The company believes that amounts withheld will ultimately be recovered by the joint venture and has therefore not recognized any reduction in project revenue because of the withholdings. The company further believes that the claims against the joint venture are without merit.

London Connect Project

The company is involved in arbitration proceedings in connection with its London Connect Project, a \$500 million lump-sum project to design and install a telecommunications network that allows transmission and reception throughout the London Underground system. In February 2005, the company sought relief through arbitration proceedings for two issues. First, the company is seeking relief for the overall delay and disruption to the project. An interim decision from the arbitrator was received in December 2006 for the claim that relates to the contract time period of 2001 through 2003. Each party filed appeals relating to certain aspects of the decision which were denied. Reflecting the interim decision for 2001 through 2003, the company has recognized \$94 million in claims revenue relating to incurred cost attributed to the delay and disruption claims that are the subject of the arbitration proceedings, reduced for any settlement amounts. In addition, the company

Edgar Filing: FLUOR CORP - Form 10-Q

was assessed and has paid \$54 million representing its share of liquidated damages, a substantial portion of which has been reserved for possible non-collection. Arbitration hearings have been completed for delay and disruption for the 2004 through 2005 time period on an interim basis and the company is awaiting a decision from the arbitration panel.

The second issue concerns the responsibility for enabling the various train stock to accept the new telecommunication network equipment. The hearings on this issue have concluded and resulted in sustaining the company's position that it did not have any responsibility for certain cost associated with this portion of the work under the contract.

Embassy Projects

The company has been performing work on 11 embassy projects over the last four years for the United States Department of State under fixed-price contracts. These projects were adversely impacted by higher cost due to schedule extensions, scope changes causing material deviations from the Standard Embassy Design, increased cost to meet client requirements for additional security-cleared labor, site conditions at certain locations, subcontractor and teaming partner difficulties and the availability and productivity of construction labor. As of June 30, 2008, all embassy projects were complete.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

As of June 30, 2008, aggregate cost totaling \$45 million relating to claims on three projects has been recognized in revenue. Total claims-related cost incurred to date, along with claims for equitable adjustment submitted or identified, exceed the amount recorded in claims revenue. As the first formal step in dispute resolution, the majority of these claims have been certified in accordance with federal contracting requirements. The company continues to periodically evaluate its position with respect to these claims.

Fluor Daniel International and Fluor Arabia Ltd. v. General Electric Company, et al

In October 1998, Fluor Daniel International and Fluor Arabia Ltd. filed a complaint in the United States District Court for the Southern District of New York against General Electric Company and certain operating subsidiaries as well as Saudi American General Electric, a Saudi Arabian corporation. The complaint seeks damages in connection with the procurement, engineering and construction of the Rabigh Combined Cycle Power Plant in Saudi Arabia. Subsequent to a motion to compel arbitration of the matter, the company initiated arbitration proceedings in New York under the American Arbitration Association international rules. The evidentiary phase of the arbitration has concluded. In January 2005, the arbitration panel indicated that it would be rendering its decision in two phases; the first, a decision on entitlement and the second, a decision on damages. On May 4, 2005, the arbitration panel issued a partial award on entitlement issues which confirmed Fluor's entitlement to recovery of certain of its claims for cost incurred in construction of the plant. On April 10, 2007, the arbitration panel issued a partial final award stipulating the amount of entitlement to recovery of certain claims and awarding interest on the net amounts due to Fluor. A preliminary award on the calculation of interest due to Fluor has been received. The company does not expect that the final resolution of the arbitration will have a material effect on its consolidated financial position or results of operations.

Conex International v. Fluor Enterprises, Inc.

In November 2006, a Jefferson County, Texas, jury reached an unexpected verdict in the case of Conex International (Conex) v. Fluor Enterprises Inc. (FEI), ruling in favor of Conex and awarded \$98.8 million in damages related to a 2001 construction project.

In 2001, Atofina (now part of Total Petrochemicals Inc.) hired Conex International to be the mechanical contractor on a project at Atofina's refinery in Port Arthur, Texas. FEI was also hired to provide certain engineering advice to Atofina on the project. There was no contract between Conex and FEI. Later in 2001 after the project was complete, Conex and Atofina negotiated a final settlement for extra work on the project. Conex sued FEI in September 2003 alleging damages for interference and misrepresentation and demanding that FEI should pay Conex the balance of the extra work charges that Atofina did not pay in the settlement. Conex also asserted that FEI interfered with Conex's contract and business relationship with Atofina. The jury verdict included damages for the extra work and the alleged interference.

Edgar Filing: FLUOR CORP - Form 10-Q

The company has appealed the decision and believes, based on the advice of counsel, that it is probable that the judgment based on this verdict will be overturned. The company strongly believes that the judgment based on this verdict is supported neither by the facts nor the law, and will pursue all possible avenues for reconsideration or appeal. Accordingly, the company has not recognized a charge reflecting the verdict amount.

(13) In the ordinary course of business, the company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates ranging from mechanical completion of the facilities being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. Amounts that may be required to be paid in excess of estimated cost to complete contracts in progress are not estimable. For cost reimbursable contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

work performed under the contract. For lump sum or fixed price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where cost exceeds the remaining amounts payable under the contract, the company may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors for claims. As of June 30, 2008, no material changes to the amount of financial or performance guarantees outstanding had occurred since the filing of the company's December 31, 2007 annual report on Form 10-K.

Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of June 30, 2008, there were no material guarantees outstanding.

Table of Contents

FLUOR CORPORATION

Item 2. Management's Discussion and Analysis of

Financial Condition and Results of Operations

The following discussion and analysis is provided to increase understanding of, and should be read in conjunction with, the Condensed Consolidated Financial Statements and notes and the company's December 31, 2007 annual report on Form 10-K. For purposes of reviewing this document, operating profit is calculated as revenue less cost of revenue excluding: corporate administrative and general expense; interest expense; interest income; domestic and foreign income taxes; and other non-operating income and expense items.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made herein, including statements regarding the company's projected revenue and earnings levels, new awards and backlog levels and the implementation of strategic initiatives and organizational changes are forward-looking in nature. These forward-looking statements reflect current analysis of existing information and are subject to various risks and uncertainties. As a result, caution must be exercised in relying on forward-looking statements. Due to known and unknown risks, the company's actual results may differ materially from its expectations or projections. Factors potentially contributing to such differences include, among others:

- The cyclical nature of many of the markets the company serves and its vulnerability to downturns;
- Difficulties or delays incurred in the execution of contracts, including performance by our joint venture or teaming partners, resulting in cost overruns or liabilities;
- The company's ability to hire and retain qualified personnel;
- Customer cancellations of, or scope adjustments to, existing contracts, including our government contracts that may be terminated at any time;
- Failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases losses on projects;
- The company's failure to receive anticipated new contract awards and the related impacts on staffing levels and cost;
- Competition in the global engineering, procurement and construction industry;
- A failure to obtain favorable results in existing or future litigation or dispute resolution proceedings;
- The potential impact of certain tax matters including, but not limited to, those from foreign operations and the ongoing audits by tax authorities;
- Changes in global business, economic (including currency risk), political and social conditions;
- Civil unrest, security issues, labor conditions and other unforeseeable events in the countries in which we do business, resulting in unanticipated losses on fixed price projects;
- Decreased capital investment or expenditures, or a failure to make anticipated increased capital investment or expenditures, by the company's clients;
- The impact of past and future environmental, health and safety regulations;
- Customer delays or defaults in making payments;
- The impact of anti-bribery and international trade laws and regulations;
- The availability of credit and restrictions imposed by credit facilities;
- Possible limitations of bonding capacity;
- The company's ability to secure appropriate insurance;
-

Edgar Filing: FLUOR CORP - Form 10-Q

Limitations on cash transfers from subsidiaries that may restrict the company's ability to satisfy financial obligations or to pay interest or principal when due on outstanding debt;

- The company's ability to identify and successfully integrate acquisitions;
- Restrictions on possible transactions imposed by Delaware law; and
- Possible systems and information technology interruptions.

While most risks affect only future cost or revenue anticipated by the company, some risks may relate to accruals that have already been reflected in earnings. The company's failure to receive payments of accrued amounts or incurrence of liabilities in excess of amounts previously recognized, could result in a charge against future earnings.

Table of Contents

Additional information concerning these and other factors can be found in our press releases as well as our periodic filings with the Securities and Exchange Commission, including the discussion under the heading "Item 1A. Risk Factors" in the company's Form 10-K filed February 29, 2008. These filings are available publicly on the SEC's website at <http://www.sec.gov>, on Fluor's website at <http://investor.fluor.com> or upon request from Fluor's Investor Relations Department: (469) 398-7220. Except as otherwise required by law, the company undertakes no obligation to publicly update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

Net earnings for the three and six months ended June 30, 2008 were \$209.3 million, or \$1.13 per diluted share, and \$347.3 million, or \$1.88 per diluted share, respectively. These results compare with net earnings of \$95.6 million, or \$0.53 per diluted share, and \$180.2 million, or \$1.00 per diluted share, respectively, for the corresponding periods of 2007.

Consolidated revenue for the three and six months ended June 30, 2008 was \$5.8 billion and \$10.6 billion, respectively, compared to \$4.2 billion and \$7.9 billion for the corresponding periods in 2007. All segments but Government reported increases in revenue.

The effective tax rate, based on the company's actual operating results for the three and six months ended June 30, 2008 was approximately 39 percent, compared to approximately 33 percent and 36 percent, respectively, for the corresponding periods of 2007. The lower effective tax rate for the three and six months ended June 30, 2007 was primarily attributable to the recognition of previously unrecognized tax benefits and the reversal of certain valuation allowances associated with foreign net operating losses.

Consolidated new awards for the three and six months ended June 30, 2008 were \$6.4 billion and \$12.1 billion, respectively, compared to \$5.8 billion and \$10.3 billion in the corresponding 2007 periods. The increase in new award activity was primarily attributable to the Oil & Gas and Industrial & Infrastructure segments, partially offset by lower new awards for Power. Approximately 48 percent of consolidated new awards for the six months ended June 30, 2008 were for projects located outside of the United States.

Consolidated backlog at June 30, 2008 of \$33.0 billion was approximately 28 percent higher compared to backlog at June 30, 2007 and approximately 9 percent higher than backlog at the end of 2007. As of June 30, 2008, approximately 55 percent of consolidated backlog relates to international projects. Although backlog reflects business which is considered to be firm, cancellations or scope adjustments may occur. Backlog may be increased or decreased to reflect the impact of project cancellations, deferrals or changes to project scope or cost.

OIL & GAS

Revenue and operating profit for the Oil & Gas segment are summarized as follows:

Edgar Filing: FLUOR CORP - Form 10-Q

| (in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------|-------------------------------|------------|-----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 3,342.2 | \$ 2,140.9 | \$ 5,945.5 | \$ 3,822.5 |
| Operating profit | 169.0 | 100.5 | 306.5 | 188.8 |

Revenue has increased 56 percent for both the three and six months ended June 30, 2008 compared to the corresponding periods in 2007 as a result of higher project execution activities from the significant number of new projects awarded over the last few years. The current year revenue growth has been accompanied by substantial operating profit increases.

Table of Contents

New awards for the three months ended June 30, 2008 were \$3.0 billion, compared to \$2.1 billion for the corresponding period of 2007. New awards during the 2008 period included major projects in the United States and Russia. Backlog at June 30, 2008 increased 49 percent to \$20.9 billion compared to \$14.0 billion at June 30, 2007. The increase in backlog reflects the broad-based strength of the segment's various markets, particularly the high world-wide demand for new capacity in oil and gas exploration and refining, as well as for polysilicon.

Total assets in the segment increased to \$1.2 billion at June 30, 2008 from \$891 million at December 31, 2007 primarily due to the increased level of project execution activities.

INDUSTRIAL & INFRASTRUCTURE

Revenue and operating profit for the Industrial & Infrastructure segment are summarized as follows:

| (in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------|-------------------------------|----------|-----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 912.5 | \$ 877.2 | \$ 1,708.7 | \$ 1,650.6 |
| Operating profit | 121.4 | 22.6 | 150.8 | 43.7 |

Revenue for the three and six months ended June 30, 2008 increased over the respective prior year periods primarily due to growth in the mining and metals business line. Operating profit for the three and six months ended June 30, 2008 was favorably impacted by substantially improved performance by the mining and metals and manufacturing and life sciences business lines, as well as a pre-tax gain of \$79.2 million from the sale of a joint venture interest in a wind power project in the United Kingdom.

New awards for the three months ended June 30, 2008 were \$2.4 billion compared to \$1.1 billion for the 2007 comparison period. The increase in new awards is largely attributable to the wind power project in the United Kingdom. Backlog increased to \$7.1 billion at June 30, 2008 compared to \$5.7 billion at June 30, 2007. The increase is attributable to large infrastructure project awards in the fourth quarter of 2007 and the second quarter of 2008.

GOVERNMENT

Revenue and operating profit for the Government segment are summarized as follows:

| Three Months Ended June 30 | Six Months Ended June 30 |
|-------------------------------|-----------------------------|
|-------------------------------|-----------------------------|

Edgar Filing: FLUOR CORP - Form 10-Q

| (in millions) | 2008 | 2007 | 2008 | 2007 |
|------------------|----------|----------|----------|----------|
| Revenue | \$ 300.4 | \$ 325.1 | \$ 580.1 | \$ 671.0 |
| Operating profit | 11.1 | 9.4 | 18.8 | 25.8 |

Revenue for the three and six months ended June 30, 2008 decreased compared to the corresponding periods in the prior year primarily due to reduced contributions from embassy projects and Iraq-related work. The slight improvement in operating profit for the three months ended June 30, 2008 when compared to the same period in 2007 was primarily attributable to embassies. Operating profit for the six months ended June 30, 2008 was 27 percent lower compared to the six months ended June 30, 2007 due to higher contributions from FEMA hurricane relief task orders and Iraq-related work in the 2007 period. In addition, the prior year period included performance incentives earned on the Hanford contract.

Table of Contents

New awards were \$87 million for the three months ended June 30, 2008 compared to \$181 million for the three months ended June 30, 2007, with the decrease primarily due to reduced new awards for Iraq-related contracts. Backlog at June 30, 2008 was \$316 million compared to \$428 million at June 30, 2007. During the second quarter of 2008, the formal protests regarding the Savannah River and LOGCAP IV contract awards were favorably resolved. Pending a successful transition period, the company will book a new award for the first year of the Savannah River contract in the third quarter of 2008. The company will record backlog for LOGCAP IV as individual task orders are awarded.

GLOBAL SERVICES

Revenue and operating profit for the Global Services segment are summarized as follows:

| (in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------|-------------------------------|----------|-----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 696.1 | \$ 598.1 | \$ 1,402.3 | \$ 1,232.7 |
| Operating profit | 66.1 | 48.2 | 119.6 | 95.1 |

Revenue, operating profit and operating profit margin increased during the three and six months ended June 30, 2008 compared to the same periods in 2007, primarily driven by the performance of the operations and maintenance, equipment and supply chain solutions business lines.

New awards for the three months ended June 30, 2008 were \$673 million compared to \$570 million for the same period in 2007. Current year new awards primarily relate to renewals and expanded scope of existing customer contracts. Backlog at June 30, 2008 was \$2.7 billion, up slightly from \$2.6 billion at June 30, 2007.

Operations and maintenance activities that have yet to be performed comprise Global Services backlog. The equipment, temporary staffing and supply chain solutions business lines do not report backlog or new awards. In recent years, Global Services has derived larger percentages of its revenue and operating profit from short-duration operations and maintenance activities and from these non-backlog reporting business lines. Therefore, Global Services revenue and profit increases may outpace backlog growth.

POWER

Revenue and operating profit for the Power segment are summarized as follows:

| Three Months Ended June 30 | Six Months Ended June 30 |
|-------------------------------|-----------------------------|
|-------------------------------|-----------------------------|

Edgar Filing: FLUOR CORP - Form 10-Q

| (in millions) | 2008 | | 2007 | |
|------------------|------|-------|------|-------|
| Revenue | \$ | 522.4 | \$ | 280.2 |
| Operating profit | | 24.8 | | 6.5 |
| | | | \$ | 944.0 |
| | | | \$ | 486.5 |
| | | | | 45.8 |
| | | | | 11.3 |

Revenue and operating profit for the three and six months ended June 30, 2008 have increased compared to the corresponding periods of 2007 as the result of higher levels of project execution activities. The increase in 2008 operating profit margin is primarily due to the performance of the segment's key projects, including a large coal-fired power plant that was awarded in the second quarter of 2007.

New awards for the three months ended June 30, 2008 were \$206 million, compared to \$1.8 billion for the 2007 comparison period, which included a large coal-fired power plant. Backlog at June 30, 2008 decreased to \$1.9

Table of Contents

billion compared to \$3.0 billion at June 30, 2007. Both new award activity and backlog have been impacted by delays in obtaining air permits for certain coal-fired power plants.

OTHER

Corporate administrative and general expense for the three and six months ended June 30, 2008 was \$61.7 million and \$101.2 million, respectively, compared to \$51.7 million and \$97.1 million in the corresponding periods of 2007. The increase in corporate administrative and general expense for the three and six months ended June 30, 2008 compared to the corresponding periods of 2007, is primarily due to increased compensation cost, as a result of the strong 2008 operating performance and increase in the company's share price, which affects the expense associated with share-based plans.

Net interest income of \$14.3 million and \$26.4 million during the three and six month periods ended June 30, 2008 compares with net interest income of \$8.1 million and \$12.3 million during the corresponding periods of 2007. This improvement is the primary result of higher cash balances that were deposited in interest bearing accounts or invested in marketable securities.

Income tax expense for the three and six months ended June 30, 2008 and 2007 is discussed above under Results of Operations.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 of the Notes to Condensed Consolidated Financial Statements.

LITIGATION AND MATTERS IN DISPUTE RESOLUTION

As of June 30, 2008, the following matters relating to completed and in progress projects were in the dispute resolution process:

Infrastructure Joint Venture Project

London Connect Project

Embassy Projects

Fluor Daniel International and Fluor Arabia Ltd. v. General Electric Company, et al

Conex International vs. Fluor Enterprises, Inc.

Discussion of the status of these projects is included in Footnote 12 to the Condensed Consolidated Financial Statements.

FINANCIAL POSITION AND LIQUIDITY

During the six months ended June 30, 2008, cash generated by operating activities of \$681.6 million resulted from earnings sources and increases in advance billings.

Cash utilized by investing activities was \$373.9 million in the first half of 2008 compared to \$327.5 million in the 2007 comparison period. The company invests excess cash in marketable securities. Investments in marketable securities are governed by the company's investment policy, which focuses on, in order of priority, the preservation of capital, maintenance of liquidity and maximization of yield. Capital expenditures were \$127.1 million in the six months ended June 30, 2008 compared to \$120.6 million during the 2007 period. Expenditures during the current year include significant amounts relating to equipment operations and investments in computer infrastructure

Table of Contents

upgrades. Also included in the cash flow for investing activities during the six months ended June 30, 2008 were proceeds of \$79.2 million from the sale of a joint venture interest in a wind power project in the United Kingdom.

Financing activities in the first six months of 2007 include non-recourse project financing of GeneSYS Communications Limited, which is no longer consolidated in the company's financial statements. Impacting cash flows in the first six months of both 2008 and 2007 was \$12.2 million and \$6.4 million, respectively, in cash received from the exercise of stock options. In the first quarter of 2008, the company's Board of Directors authorized an increase in the quarterly dividend payable April 2, 2008 to \$0.125 per share (split adjusted) from \$0.10 per share (split adjusted). Second quarter dividends were declared at the pre-split price, but future quarterly dividends, if any, will be on a post-split basis of \$0.125 per share. Declared dividends are typically paid during the month following the quarter in which they are declared. The payment and level of future cash dividends will be subject to the discretion of the company's Board of Directors. The company's total debt to total capitalization (debt-to-capital) ratio at June 30, 2008 was 10.9 percent compared to 12.5 percent at December 31, 2007.

During the six months ended June 30, 2008, exchange rates for functional currencies for most of the company's international operations continued to strengthen against the U.S. dollar, resulting in unrealized translation gains that are reflected in the cumulative translation component of other comprehensive loss. Because most of the cash held in foreign currencies will be used for project related expenditures in those currencies, the company's exposure to realized exchange gains and losses is considered nominal.

Liquidity is provided by cash generated from operations, advance billings on contracts in progress and access to financial markets. As customer advances are reduced through use in project execution and if not replaced by advances on new projects, the company's cash position would be reduced. For the next 12 months, cash generated from operations and additional advance billings, along with unused credit capacity and the option to issue debt or equity securities, if required, is expected to be sufficient to fund operating requirements.

In February 2004, the company issued \$330 million of 1.5 percent Convertible Senior Notes (the Notes) due February 15, 2024 and received proceeds of \$323 million, net of underwriting discounts. In December 2004, the company irrevocably elected to pay the principal amount of the Notes in cash. Notes are convertible if a specified trading price of the company's common stock (the trigger price) is achieved and maintained for a specified period. The trigger price condition has been satisfied during each period since the fourth quarter of 2005 and the Notes have therefore been classified as short-term debt as of June 30, 2008 and December 31, 2007. During the three and six months ended June 30, 2008, holders converted \$5.1 million of the Notes in exchange for the principal balance owed in cash plus 114,756 shares of the company's common stock. Subsequently, in July 2008, holders converted an additional \$58 million of the Notes in exchange for the principal balance owed in cash plus 1,429,173 shares of the company's common stock. The company does not know the timing or principal amount of the remaining Notes that may be presented for conversion in the future. Available cash balances will be used to satisfy any principal and interest payments. Shares of the company stock will be issued to satisfy any appreciation between the conversion price and the market price on the date of conversion.

Off-Balance Sheet Arrangements

The company maintains a variety of commercial commitments that are generally made available to provide support for various commercial provisions in its engineering and construction contracts. The company has \$2.3 billion in committed and uncommitted lines of credit to support letters of credit. Letters of credit are provided to clients in the ordinary course of business in lieu of retention or performance and completion guarantees on engineering and construction contracts. At June 30, 2008, the company had utilized \$1.0 billion of its credit capacity. The company has \$110 million in credit lines for general purposes in addition to the amount above. The company also posts surety bonds as generally required by commercial terms, primarily on state and local government projects to guarantee its performance on contracts.

In the ordinary course of business, the company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates ranging from mechanical completion of the facilities being

Table of Contents

constructed to a period extending beyond contract completion in certain circumstances. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. In most cases any amounts expended on behalf of a partner or joint venture participant pursuant to performance guarantees would be recovered from the client or other third party for work performed in the ordinary course of contract execution. As of June 30, 2008, there were no material guarantees outstanding.

Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of June 30, 2008, no material changes to financial guarantees of the debt of third parties had occurred since the filing of the company's December 31, 2007 annual report on Form 10-K and the carrying value of recorded guarantee obligations was not significant as of either of these dates.

Financial Instruments

The company utilizes foreign exchange forward or options contracts to hedge foreign currency transactions entered into in the ordinary course of business and not to engage in currency speculation. At June 30, 2008, the company had forward foreign exchange contracts of less than 2 months duration to exchange major world currencies for U.S. dollars. The total gross notional amount of these contracts was \$15 million. In addition to foreign exchange forward option contracts, the company from time to time enters into price-risk management transactions (e.g., commodity swaps) to minimize the volatility of project cost. At June 30, 2008 the company had commodity swap contracts of less than 3 years duration and a total gross notional amount of \$15 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes on this matter in the first six months of 2008. Accordingly, the disclosures provided in the Annual Report on Form 10-K for the year ended December 31, 2007 remain current.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their evaluation as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) are effective, based upon an evaluation of those controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Exchange Act.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred as of the end of the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**FLUOR CORPORATION****CHANGES IN CONSOLIDATED BACKLOG**

UNAUDITED

| (in millions) | Three Months Ended June 30 | |
|------------------------------------|-------------------------------|-------------|
| | 2008 | 2007 |
| Backlog beginning of period | \$ 31,458.0 | \$ 23,707.0 |
| New awards | 6,393.3 | 5,797.8 |
| Adjustments and cancellations, net | 762.5 | 304.9 |
| Work performed | (5,603.9) | (4,110.9) |
| Backlog end of period | \$ 33,009.9 | \$ 25,698.8 |

| (in millions) | Six Months Ended June 30 | |
|------------------------------------|-----------------------------|-------------|
| | 2008 | 2007 |
| Backlog beginning of period | \$ 30,170.8 | \$ 21,877.7 |
| New awards | 12,092.1 | 10,261.4 |
| Adjustments and cancellations, net | 955.2 | 1,218.6 |
| Work performed | (10,208.2) | (7,658.9) |
| Backlog end of period | \$ 33,009.9 | \$ 25,698.8 |

Table of Contents**PART II: OTHER INFORMATION****Item 1. Legal Proceedings**

Fluor and its subsidiaries, as part of their normal business activities, are parties to a number of legal proceedings and other matters in various stages of development. While we cannot predict the outcome of these proceedings, in our opinion and taking into account reports of counsel, we do not believe that the outcome of any of these proceedings, or all of them combined, will have a material adverse effect on the consolidated financial position, or the results of operations of the company, after giving effect to provisions already recorded.

For information on matters in dispute, see Note 12 to the Condensed Consolidated Financial Statements under Part I, Item 1.

Item 1A. Risk Factors

There have been no material changes from our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information about purchases by the company during the quarter ended June 30, 2008 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act. All share and per share data, including the number of shares available for repurchase, has been adjusted to reflect the effect of the two-for-one stock split.

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Program (2) |
|--------|--|---------------------------------------|--|--|
|--------|--|---------------------------------------|--|--|

Edgar Filing: FLUOR CORP - Form 10-Q

| | | | | Programs | | |
|---------------|----------------|--------|----|----------|-----|-----------|
| April 1, 2008 | April 30, 2008 | 11,708 | \$ | 75.99 | N/A | 8,270,800 |
| May 1, 2008 | May 31, 2008 | 1,086 | \$ | 92.30 | N/A | 8,270,800 |
| June 1, 2008 | June 30, 2008 | 2,650 | \$ | 95.59 | N/A | 8,270,800 |
| Total | | 15,444 | \$ | 80.51 | | |

(1) Shares cancelled as payment for statutory withholding taxes upon the vesting of restricted stock issued pursuant to equity based employee benefit plans.

(2) On September 20, 2001, the company announced that the Board of Directors had approved the repurchase of up to five million shares of our common stock. On August 6, 2008, the Board of Directors increased the number of shares available for repurchase by 4,135,400 shares to account for the company's two-for-one stock split. This repurchase program is ongoing and does not have an expiration date.

Table of Contents**Item 6. Exhibits****EXHIBIT INDEX**

| Exhibit | Description |
|----------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 9, 2008). |
| 3.2 | Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on August 6, 2008). |
| 4.1 | Indenture between Fluor Corporation and Bank of New York, as trustee, dated as of February 17, 2004 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on February 17, 2004). |
| 4.2 | First Supplemental Indenture between Fluor Corporation and The Bank of New York, as trustee, dated as of February 17, 2004 (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on February 17, 2004). |
| 10.1 | Distribution Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 7, 2000). |
| 10.2 | Tax Sharing Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 7, 2000). |
| 10.3 | Fluor Corporation 2000 Executive Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005). |
| 10.4 | Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors, as amended and restated on November 1, 2007 (incorporated by reference to Exhibit 10.4 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.5 | Fluor Corporation Executive Deferred Compensation Plan, as amended and restated effective April 21, 2003 (incorporated by reference to Exhibit 10.5 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.6 | Fluor Corporation Deferred Directors' Fees Program, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed on March 31, 2003). |
| 10.7 | Directors' Life Insurance Summary (incorporated by reference to Exhibit 10.12 to the registrant's Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000). |
| 10.8 | Fluor Executives' Supplemental Benefit Plan (incorporated by reference to Exhibit 10.8 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.9 | Fluor Corporation Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.15 to the registrant's Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000). |
| 10.10 | Executive Severance Plan (incorporated by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.11 | 2001 Key Employee Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005). |
| 10.12 | 2001 Fluor Stock Appreciation Rights Plan, as amended and restated on November 1, 2007 (incorporated by reference to Exhibit 10.12 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.13 | Fluor Corporation 2003 Executive Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005). |
| 10.14 | Form of Compensation Award Agreements for grants under the Fluor Corporation 2003 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q filed on November 9, 2004). |

Table of Contents

- 10.15 Offer of Employment Letter dated May 7, 2001 from Fluor Corporation to D. Michael Steuert (incorporated by reference to Exhibit 10.17 to the registrant's Annual Report on Form 10-K filed on March 15, 2004).
 - 10.16 Amended and Restated Credit Agreement, dated as of September 7, 2006, among Fluor Corporation, BNP Paribas, as Administrative Agent and an Issuing Lender, Citicorp USA, Inc., as Syndication Agent, Bank of America, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Co-Documentation Agents, and the lenders party thereto (incorporated by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q filed on November 6, 2006).
 - 10.17 Special Retention Agreement, dated March 27, 2006, between Fluor Corporation and John Hopkins (incorporated by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q filed on May 8, 2006).
 - 10.18 Summary of Fluor Corporation Non-Employee Director Compensation (incorporated by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q filed on November 7, 2007).
 - 10.19 Fluor Corporation 409A Deferred Directors' Fees Program, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 21, 2007).
 - 10.20 Fluor 409A Executive Deferred Compensation Program, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 21, 2007).
 - 10.21 Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 9, 2008).
 - 31.1 Certification of Chief Executive Officer of Fluor Corporation.*
 - 31.2 Certification of Chief Financial Officer of Fluor Corporation.*
 - 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.*
 - 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.*
-

* New exhibit filed with this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLUOR CORPORATION

Date: August 11, 2008

/s/ D. Michael Steuert
D. Michael Steuert
Senior Vice President and Chief Financial Officer

Date: August 11, 2008

/s/ Gary G. Smalley
Gary G. Smalley
Vice President and Controller

Table of Contents**EXHIBIT INDEX**

| Exhibit | Description |
|----------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 9, 2008). |
| 3.2 | Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on August 6, 2008). |
| 4.1 | Indenture between Fluor Corporation and Bank of New York, as trustee, dated as of February 17, 2004 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on February 17, 2004). |
| 4.2 | First Supplemental Indenture between Fluor Corporation and The Bank of New York, as trustee, dated as of February 17, 2004 (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on February 17, 2004). |
| 10.1 | Distribution Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 7, 2000). |
| 10.2 | Tax Sharing Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 7, 2000). |
| 10.3 | Fluor Corporation 2000 Executive Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005). |
| 10.4 | Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors, as amended and restated on November 1, 2007 (incorporated by reference to Exhibit 10.4 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.5 | Fluor Corporation Executive Deferred Compensation Plan, as amended and restated effective April 21, 2003 (incorporated by reference to Exhibit 10.5 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.6 | Fluor Corporation Deferred Directors' Fees Program, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed on March 31, 2003). |
| 10.7 | Directors' Life Insurance Summary (incorporated by reference to Exhibit 10.12 to the registrant's Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000). |
| 10.8 | Fluor Executives' Supplemental Benefit Plan (incorporated by reference to Exhibit 10.8 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.9 | Fluor Corporation Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.15 to the registrant's Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000). |
| 10.10 | Executive Severance Plan (incorporated by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.11 | 2001 Key Employee Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005). |
| 10.12 | 2001 Fluor Stock Appreciation Rights Plan, as amended and restated on November 1, 2007 (incorporated by reference to Exhibit 10.12 to the registrant's Annual Report on Form 10-K filed on February 29, 2008). |
| 10.13 | Fluor Corporation 2003 Executive Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005). |
| 10.14 | Form of Compensation Award Agreements for grants under the Fluor Corporation 2003 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q filed on November 9, 2004). |
| 10.15 | Offer of Employment Letter dated May 7, 2001 from Fluor Corporation to D. Michael Steuert (incorporated by reference to Exhibit 10.17 to the registrant's Annual Report on Form 10-K filed on March 15, 2004). |

Table of Contents

- 10.16 Amended and Restated Credit Agreement, dated as of September 7, 2006, among Fluor Corporation, BNP Paribas, as Administrative Agent and an Issuing Lender, Citicorp USA, Inc., as Syndication Agent, Bank of America, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Co-Documentation Agents, and the lenders party thereto (incorporated by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q filed on November 6, 2006).
 - 10.17 Special Retention Agreement, dated March 27, 2006, between Fluor Corporation and John Hopkins (incorporated by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q filed on May 8, 2006).
 - 10.18 Summary of Fluor Corporation Non-Employee Director Compensation (incorporated by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q filed on November 7, 2007).
 - 10.19 Fluor Corporation 409A Deferred Directors' Fees Program, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 21, 2007).
 - 10.20 Fluor 409A Executive Deferred Compensation Program, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 21, 2007).
 - 10.21 Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 9, 2008).
 - 31.1 Certification of Chief Executive Officer of Fluor Corporation.*
 - 31.2 Certification of Chief Financial Officer of Fluor Corporation.*
 - 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.*
 - 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.*
-

* New exhibit filed with this report.