FLUOR CORP
Form 10-Q
November 07, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

OR

( ) 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	33-0927079
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

6700 Las Colinas Boulevard, Irving, Texas 75039
(Address of principal executive offices)

(469) 398-7000
(Registrant s telephone number, including area code)

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 (X) No ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( )

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value 88,424,668 shares outstanding on October 31, 2007.

FLUOR CORPORATION

FORM 10-Q

September 30, 2007

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

UNAUDITED

(in thousands, except per share amounts)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
TOTAL REVENUE	$ 4,115,226	$ 3,364,036	$ 11,978,568	$ 10,445,342
TOTAL COST OF REVENUE	3,925,705	3,317,401	11,424,354	10,052,770
OTHER (INCOME) AND EXPENSES				
Corporate administrative and general expense	44,931	32,647	142,049	128,720
Interest expense	6,989	6,429	19,389	17,510
Interest income	(17,662)	(6,292)	(42,339)	(16,837)
Total Cost and Expenses	3,959,963	3,350,185	11,543,453	10,182,163
EARNINGS BEFORE TAXES	155,263	13,851	435,115	263,179
INCOME TAX EXPENSE (BENEFIT)	61,587	(13,487)	161,259	80,435
NET EARNINGS	$ 93,676	$ 27,338	$ 273,856	$ 182,744
EARNINGS PER SHARE				
BASIC	$ 1.07	$ 0.32	$ 3.14	$ 2.12
DILUTED	$ 1.02	$ 0.31	$ 3.01	$ 2.05
SHARES USED TO CALCULATE EARNINGS PER SHARE				
BASIC	87,323	86,363	87,154	86,179
DILUTED	91,730	88,933	90,836	89,153
DIVIDENDS DECLARED PER SHARE	$ 0.20	$ 0.20	$ 0.60	$ 0.60

See Notes to Condensed Consolidated Financial Statements.

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FLUOR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

UNAUDITED

(in thousands, except share amounts)	September 30 2007	December 31 2006 *
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,570,594	$ 976,050
Accounts and notes receivable	887,420	904,364
Contract work in progress	932,162	921,062
Deferred taxes	203,777	182,522
Other current assets	215,061	339,588
Total current assets	3,809,014	3,323,586
Property, plant and equipment (net of accumulated depreciation of $597,517 and $540,921, respectively)	757,313	692,126
Investments and goodwill	244,405	221,274
Deferred taxes	141,407	143,272
Deferred compensation trusts	267,424	246,965
Other	327,835	247,647
	$ 5,547,398	$ 4,874,870
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Trade accounts payable	$ 898,478	$ 804,050
Convertible senior notes	329,999	329,999
Equity bridge loan	-	19,126
Non-recourse project finance debt	16,361	23,376
Advance billings on contracts	615,030	531,548
Accrued salaries, wages and benefits	503,197	389,694
Other accrued liabilities	285,405	308,474
Total current liabilities	2,648,470	2,406,267
Long-term debt due after one year	17,699	17,686
Non-recourse project finance debt	261,683	169,443
Non-current liabilities	623,605	551,002
Contingencies and commitments		
Shareholders equity		
Capital stock		
Preferred authorized 20,000,000 shares ($0.01 par value); none issued	--	--
Common authorized 150,000,000 shares ($0.01 par value); issued and outstanding 88,387,622 and 88,041,301 shares in 2007 and 2006, respectively	884	880
Additional capital	693,823	654,137

Accumulated other comprehensive loss		(98,655)		(148,332)
Retained earnings		1,399,889		1,223,787
Total shareholders equity		1,995,941		1,730,472
	$	5,547,398	$	4,874,870

*Amounts at December 31, 2006 have been derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

(in thousands)	Nine Months Ended September 30 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 273,856	$ 182,744
Adjustments to reconcile net earnings to cash provided (utilized) by operating activities:		
Depreciation of fixed assets	105,339	86,132
Amortization of intangibles	1,463	1,515
Restricted stock and stock option amortization	24,177	25,932
Minority interest	16,394	(11,734)
Adjust deferred compensation trust assets to fair value	(20,459)	(11,025)
Adjust deferred compensation obligation to fair value	31,707	15,123
Taxes paid on vested restricted stock	(12,243)	(14,393)
Deferred taxes	(39,637)	(119,739)
Stock option tax benefit	(17,571)	(12,260)
Retirement plan accrual, net of contributions	(26,077)	16,311
Decrease (increase) in unbilled fees receivable	118,162	(4,322)
Changes in operating assets and liabilities	221,747	19,414
Equity in earnings of investees	(8,498)	(10,474)
Insurance proceeds	-	9,345
Currency translation	5,150	13,887
Other items	(377)	(401)
Cash provided by operating activities	673,133	186,055
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(200,923)	(187,556)
Investments	(57)	(314)
Proceeds from disposal of property, plant and equipment	44,433	28,285
Other items	(2,547)	(1,852)
Cash utilized by investing activities	(159,094)	(161,437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of non-recourse project financing	101,665	76,050
Repayment of non-recourse project financing	(23,376)	-
Repayment of equity bridge loan	(19,126)	-
Stock options and warrants exercised	10,963	31,726
Stock option tax benefit	17,571	12,260
Cash dividends paid	(52,663)	(35,254)
Other items	(201)	(447)
Cash provided by financing activities	34,833	84,335

Effect of exchange rate changes on cash		45,672		(2,922)
Increase in cash and cash equivalents		594,544		106,031
Cash and cash equivalents at beginning of period		976,050		789,016
Cash and cash equivalents at end of period	$	1,570,594	$	895,047

See Notes to Condensed Consolidated Financial Statements.

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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, 2006 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 nine months ended September 30, 2007 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, including certain contract loss provisions) which, in the opinion of management, are necessary to present fairly its consolidated financial position at September 30, 2007 and its consolidated results of operations for the three and nine months ended September 30, 2007 and 2006 and its cash flows for the nine months ended September 30, 2007 and 2006.

Certain 2006 amounts have been reclassified to conform with the 2007 presentation.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of SFAS No. 157 on the company s financial position, results of operations and cash flows.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	2007	2006	2007	2006
Net earnings	$ 93,676	$ 27,338	$ 273,856	$ 182,744
Foreign currency translation adjustment	19,158	504	42,583	10,630
Amortization of net actuarial loss from pension plans	2,630	--	7,094	--
Comprehensive income	$ 115,464	$ 27,842	$ 323,533	$ 193,374

(3) The effective tax rates, based on the company s actual operating results for the three and nine months ended September 30, 2007 were approximately 39.7 percent and 37.1 percent, respectively. The utilization of net operating loss and capital loss carryforwards and an increase in the extraterritorial income exclusion and the domestic production activities deduction, resulted in recognition of tax benefit of $13.5 million in the third quarter of 2006. These factors reduced the effective tax rate for the nine months ended September 30, 2006 to 30.6 percent.

In June 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprises financial statements in accordance with SFAS No. 109. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Also, the interpretation provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

transition. This interpretation is effective for fiscal years beginning after December 15, 2006, and the company adopted this interpretation in the first quarter of 2007.

As a result of the adoption of FIN 48, the company recognized a cumulative-effect adjustment of $45 million, increasing its liability for unrecognized tax benefits, interest and penalties and reducing the January 1, 2007 balance of retained earnings. As of the date of adoption, including the impact of recognizing the increase in liability noted above, the company s unrecognized tax benefits totaled $351 million of which $166 million, if recognized, would affect the company s effective tax rate. There was no material change in the liability for unrecognized tax benefits during the three and nine months ended September 30, 2007.

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 tax estimates for its tax positions are reasonable, the final outcome of tax audits could be materially different, both favorable and unfavorable. 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 1996.

In connection with the U.S. Internal Revenue Service (IRS) examination of the company s income tax returns for the tax years beginning November 1, 1995 through December 31, 2000, the IRS proposed certain significant adjustments that, if sustained, would result in additional taxes and penalties. The company filed protests with IRS Appeals contesting many of the proposed adjustments and all of the proposed penalties. The company reached a tentative agreement with IRS Appeals in September 2007, which is subject to review by the Congressional Joint Committee on Taxation (Joint Committee). Although the final outcome is not determinable until the Joint Committee completes its review, the company anticipates significant favorable adjustments to unrecognized tax benefits within the next six months.

The company recognizes potential interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. As of September 30, 2007, the accrual totaled $74 million for the potential payment of interest and penalties, including $3 million and $7 million that was recognized during the three and nine months then ended, respectively.

(4) Cash paid for interest was $28.4 million and $13.5 million for the nine months ended September 30, 2007 and 2006, respectively. Income tax payments, net of receipts, were $166.2 million and $129.5 million during the nine-month periods ended September 30, 2007 and 2006, respectively.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(shares in thousands)	2007	2006	2007	2006
Employee stock options and restricted stock	800	733	761	715
Conversion equivalent of dilutive convertible debt	3,607	1,607	2,921	2,003
Warrant	---	230	---	256
Total	4,407	2,570	3,682	2,974

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(6) Operating information by segment is as follows:

External Revenue (in millions)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Oil & Gas	$ 2,177.9	$ 1,382.5	$ 6,000.4	$ 3,875.4
Industrial & Infrastructure	735.4	800.3	2,386.0	2,312.3
Government	336.6	550.3	1,007.7	2,500.2
Global Services	541.7	484.4	1,774.4	1,427.2
Power	323.6	146.5	810.1	330.2
Total external revenue	$ 4,115.2	$ 3,364.0	$ 11,978.6	$ 10,445.3

Operating Profit (Loss) (in millions)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Oil & Gas	$ 111.5	$ 86.8	$ 300.3	$ 220.0
Industrial & Infrastructure	26.7	21.5	70.5	52.9
Government	(2.1)	(95.2)	23.6	8.0
Global Services	47.5	31.5	142.6	107.0
Power	5.9	2.0	17.2	4.7
Total operating profit	$ 189.5	$ 46.6	$ 554.2	$ 392.6

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

(in millions)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Total segment operating profit	$ 189.5	$ 46.6	$ 554.2	$ 392.6
Corporate administrative and general expense	44.9	32.6	142.1	128.7
Interest (income) expense, net	(10.7)	0.1	(23.0)	0.7
Earnings before taxes	$ 155.3	$ 13.9	$ 435.1	$ 263.2

Corporate administrative and general expense includes non-operating income of $0.6 million and non-operating expense of $2.3 million for the three and nine months ended September 30, 2007, respectively, compared with income of $0.5 million in the three months and expense of $4.9 million in the nine months of 2006. The nine month amount in 2006 includes $3.6 million relating to the impairment of an investment.

Total assets in the Oil & Gas segment increased to $753 million at September 30, 2007 from $629 million at December 31, 2006 primarily due to the increased level of project execution activities.

Total assets in the Industrial & Infrastructure segment increased to $829 million at September 30, 2007 from $686 million at December 31, 2006 primarily related to the build out of the National Roads Telecommunications Services project as discussed in Note 7.

Total assets in the Government segment decreased to $321 million at September 30, 2007 from $597 million at December 31, 2006 due to the billing and collection of substantially all of the previously unbilled fees on the Fernald project during the second quarter and progress towards completion on the Federal Emergency Management Agency (FEMA) and Iraq reconstruction contracts. All of the other segments have experienced increases in assets during 2007 as the result of higher levels of project execution activities.

(7) During 2004, the company issued $330 million of 1.5 percent Convertible Senior Notes (the Notes) due 2024, realizing net proceeds of $323 million. In December 2004, the company irrevocably elected to pay the principal amount of the Notes in cash if a specified trading price of the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

company s common stock (the trigger price) is achieved and maintained for a specified period and the Notes are presented by the holders for conversion. 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 September 30, 2007 and December 31, 2006.

On August 31, 2007, the FASB issued for comment 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, if approved, would become effective for financial statements issued for fiscal years beginning after December 15, 2007 and would be applied retrospectively to all periods presented. Management is currently evaluating the impact on the company s financial position, results of operations and cash flows if the proposed FSP APB 14-a is issued as currently drafted.

National Roads Telecommunications Services (NRTS) Project

During 2005, the company s Industrial & Infrastructure segment was awarded a $544 million project by a joint venture, GeneSYS Telecommunications Limited (GeneSYS), which is consolidated in the company s consolidated financial statements. The project was entered into with the United Kingdom Secretary of State for Transport (the Highways Agency) to design, build, maintain and finance a new integrated transmission network throughout England s motorways. The project will be executed by GeneSYS, in which the company owns a 45 percent interest, and HSBC Infrastructure Fund Management Limited, which owns a 55 percent interest. GeneSYS will finance the engineering and construction (E&C) of upgraded telecommunications infrastructure with approximately $285 million (£140 million) of non-recourse debt (the term loan facility) from a consortium of lenders (the Banks) along with joint venture member capital contributions. In September 2007, the joint venture members contributed $44 million to fund their equity commitments. The funds were used to repay debt from the banks including the company s equity bridge loan. In early October 2007, the newly constructed network achieved operational status.

Based on a qualitative analysis of the operations of GeneSYS and the variable interests of all parties to the arrangement, under the provisions of FIN 46-R the company has been determined to be the primary beneficiary of the joint venture. The company s condensed consolidated financial statements include the accounts of GeneSYS, and, accordingly, the non-recourse debt provided by the Banks totaling $278 million and $193 million at September 30, 2007 and December 31, 2006, respectively.

The term loan facility provides for interest only at LIBOR plus a margin of 95 basis points during construction of the upgraded facilities reducing to a margin of 90 basis points after completion of construction and continuing until fully repaid. Commitment fees are payable on unused portions of the facility. Payments commence in 2008 and are due in installments over the term of the service period ending in 2016.

The term loan facility is an obligation of GeneSYS and will never be a debt obligation of the company because it is non-recourse to the joint venture members. Accordingly, in the event of a default on the term loans, the lenders may only look to the resources of GeneSYS for repayment. The debt will never be repayable from assets of the company beyond its gross $20 million equity investment plus any un-remitted profits in the venture.

The contract has been segmented between the E&C and operations & maintenance (O&M) portions of the work to be performed. The E&C portion of the work is being accounted for using contract accounting revenue recognition principles. As of September 30, 2007, a total of $254 million of E&C revenue has been recognized, including $79 million during 2007, for which the related receivable is included primarily in other noncurrent assets in the accompanying Condensed

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

Consolidated Balance Sheet. Revenue in connection with O&M services including on-demand services will be recognized as earned through the life of the contract.

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

(in thousands)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Service cost	$ 9,785	$ 8,725	$ 29,155	$ 25,982
Interest cost	13,314	10,988	39,554	32,558
Expected return on assets	(17,588)	(15,271)	(52,241)	(45,255)
Amortization of transition asset	--	2	--	7
Amortization of prior service cost	(24)	(29)	(71)	(87)
Recognized net actuarial loss	4,232	4,803	12,588	14,261
Net periodic pension expense	$ 9,719	$ 9,218	$ 28,985	$ 27,466

The company currently expects to fund approximately $55 million to $75 million during 2007. During the nine months ended September 30, 2007, contributions of approximately $54 million were made by the company.

Net periodic postretirement benefit cost includes the following components:

(in thousands)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine months ended September 30 2007	Nine months ended September 30 2006
Service cost	$ --	$ --	$ --	$ --
Interest cost	353	386	1,055	1,156
Expected return on assets	--	--	--	--
Amortization of prior service cost	--	--	--	--
Recognized net actuarial loss	226	280	677	840
Net periodic postretirement benefit cost	$ 579	$ 666	$ 1,732	$ 1,996

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.

(9) Restricted stock awards totaling 196,831 shares and 271,000 shares were granted in the nine months ended September 30, 2007 and 2006, respectively, at weighted-average per share prices of $90 and $84, respectively, vesting over five years. During the nine months ended 2007 and 2006, options for the purchase of 421,820 shares at a weighted average price of $89 per share and 260,000 shares at a weighted-average price of $84 per share, respectively, were awarded, with annual vesting of 20 percent. The contractual lives of 2007 awards are consistent with those of prior years.

(10) The company and certain of its subsidiaries are involved in litigation in the ordinary course of business. The company and certain of its subsidiaries are contingently liable for commitments and performance guarantees arising in the ordinary course of business. Clients have made claims arising from engineering and construction contracts against the company, and the company has made claims against clients for cost incurred in excess of the current contract provisions. The company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

estimated. Recognized claims against clients amounted to $234 million and $200 million at September 30, 2007 and December 31, 2006, respectively, and are included in contract work in progress in 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 September 30, 2007, several matters on certain completed and in-progress projects are in the litigation and dispute resolution process. The following discussion provides a background and current status of certain 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 including owner-directed scope changes leading to quantity growth, cost escalation, additional labor and schedule delays, resulting in additional cost. During the three and nine months ended September 30, 2007, provisions of $4.7 million and $16 million, respectively, were recognized due to increasing estimated cost. A charge totaling $28 million was recognized during the nine months ended September 30, 2006. 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. To date, the joint venture has submitted claims totaling approximately $155 million to the client. Cost of $95.6 million has been incurred by the joint venture relating to these claims as of September 30, 2007 and the company has recognized its $47.8 million proportionate share of this cost in revenue. The project is expected to be open for traffic in the fourth quarter of 2007.

The customer has recently begun to withhold liquidated damages from amounts otherwise due the joint venture. The company believes that any amounts that are withheld for liquidated damages will ultimately be recovered by the joint venture and has therefore not recognized any reduction in project revenue because of the withholdings.

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 reception and transmissions 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. The arbitration hearings on the claim that relates to the contract time period of 2001 through 2003 have been held and an interim decision from the arbitrator was received in December 2006. A claim for delay and disruption for the 2004 through 2005 time period has been submitted to the dispute resolution process. Reflecting the interim outcome for 2001 through 2003, the company has recognized $106.8 million in claims revenue relating to incurred cost attributed to the delay and disruption claims. In addition, the company was

assessed and has paid $54 million representing its share of liquidated damages. This payment has not been recognized as a reduction in project revenue because it is expected that amounts assessed will be substantially recovered upon resolution of the company s claims. 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 cost associated with this portion of the work under the contract.

Embassy Projects

The company has been performing work on 11 embassy projects for the United States Department of State under fixed-price contracts over the last four years. These projects have been adversely

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

impacted by higher cost due to schedule extensions, scope changes causing material deviations from the Standard Embassy Design, site conditions at certain locations, subcontractor difficulties and the availability and productivity of construction labor. As of December 31, 2006, nine of the embassies were completed and occupied. The project in Greece was completed in the second quarter of 2007 and, as of September 30, 2007, the physical completion of the Haiti embassy has progressed to approximately 86 percent.

Claims for equitable adjustment totaling approximately $53 million on three of the projects have been submitted or identified to date. As the first formal step in dispute resolution, the majority of these claims have now been certified in accordance with federal contracting requirements. As of September 30, 2007, $46.8 million in cost relating to these claims has been incurred and recognized in revenue. During the third quarter of 2007, claims on one project were settled for approximately the recognized amount. During the first quarter of 2007, claims for recovery of cost associated with requirements for additional security-cleared labor on three of the embassies were settled. Additional claims continue to be evaluated.

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 been concluded. In January 2005 the arbitration panel indicated that it would be rendering its decision in two phases; the first to be a decision on entitlement and 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 costs 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 Fluor. 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.

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.

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(11) 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 costs 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 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 costs exceed 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 September 30, 2007, no material changes to the amount of financial or performance guarantees outstanding have occurred since the filing of the company s December 31, 2006 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 September 30, 2007, no material changes to financial guarantees of the debt of third parties had occurred since the filing of the company s December 31, 2006 annual report on Form 10-K and the carrying value of recorded guarantee obligations was not significant as of either of those dates.

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, 2006 annual report on Form 10-K. For purposes of reviewing this document, operating profit is calculated as revenue less cost of revenue.

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:

Difficulties or delays incurred in the execution of construction contracts, including performance by our joint venture or teaming partners, resulting in cost overruns or liabilities;

Failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases losses on projects;

A failure to obtain favorable results in existing or future litigation or dispute resolution proceedings;

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;

The company s failure to receive anticipated new contract awards and the related impacts on staffing levels and cost;

The cyclical nature of many of the markets the company serves and its vulnerability to downturns;

Competition in the global engineering, procurement and construction industry;

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 potential impact of certain tax matters including, but not limited to, those from foreign operations and the ongoing audits by tax authorities and those resulting from the company s reverse spin-off transaction involving our former coal segment;

The impact of past and future environmental, health and safety regulations;

Customer delays or defaults in making payments;

The availability of credit and restrictions imposed by credit facilities;

Possible limitations of bonding capacity;

The company s ability to identify and successfully integrate acquisitions;

Restrictions on possible transactions imposed by Delaware law; and

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.

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.

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 March 1, 2007. 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. The company disclaims any intent or obligation to update its forward-looking statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

Net earnings in the three and nine months ended September 30, 2007 were $93.7 million, or $1.02 per diluted share, and $273.9 million, or $3.01 per diluted share, respectively. These results compare with net earnings of $27.3 million, or $0.31 per diluted share, and $182.7 million, or $2.05 per diluted share, respectively, for the corresponding periods of 2006. Earnings before taxes in the third quarter of 2007 include a provision of $20.9 million in the Government segment on a fixed-priced project. In addition, earnings include provisions totaling $4.7 million and $16.0 million in the Industrial & Infrastructure segment in the 2007 three and nine month periods, respectively, relating to a fixed price transportation infrastructure joint venture project in California.

Earnings for the three and nine months ended September 30, 2006 were significantly impacted by provisions totaling $168 million on fixed-price projects in the Government and Industrial & Infrastructure segments. Provisions for losses on certain fixed-price embassy projects totaling $133 million and $154 million were recognized in the three and nine months of 2006, respectively. In addition to the provisions on the embassy projects, provisions totaling $13 million and $29 million in the three and nine months ended September 30, 2006, were recognized on a project in Afghanistan. See further discussion of the embassy and Afghanistan provisions under Government below. Results also include provisions totaling $22 million and $27 million in the three and nine months ended September 30, 2006 for a fixed price transportation infrastructure joint venture project in California. See further discussion of the transportation project under Industrial & Infrastructure below.

Consolidated revenue for the three and nine months ended September 30, 2007 was $4.1 billion and $12.0 billion, respectively, compared with $3.4 billion and $10.4 billion for the corresponding periods in 2006. A significant decline in revenue of the Government segment has been more than offset by increases in revenue from all of the other segments.

The effective tax rates, based on the company s actual operating results for the three and nine months ended September 30, 2007 were approximately 39.7 percent and 37.1 percent, respectively. A tax benefit totaling $13.5 million was recognized in the three months ended September 30, 2006 reflecting the utilization of net operating loss carryforwards and an increase in the extraterritorial income exclusion and the domestic production activities deduction. These factors reduced the effective tax rate to 30.6 percent, based on the company s actual operating results for the nine months ended September 30, 2006.

Consolidated new awards for the three and nine months ended September 30, 2007 were $6.0 billion and $16.3 billion, respectively, compared with $4.8 billion and $14.4 billion in the corresponding 2006 periods. The Oil & Gas, Global Services and Power segments had increases in new awards, partially offset by decreases in new awards in the Industrial & Infrastructure and Government segments. Approximately 60 percent of consolidated new awards for the nine months ended September 30, 2007 were for projects located outside of the United States.

Consolidated backlog at September 30, 2007 of $27.9 billion was approximately 41 percent higher compared with backlog at September 30, 2006 and approximately 27 percent higher than backlog at the end of 2006. As of September 30, 2007, approximately 59 percent of consolidated backlog relates to projects located outside of the United States. Although backlog reflects business which is considered to be firm, cancellations or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, deferrals and revised project scope and cost, both upward and downward.

OIL & GAS

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

(in millions)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Revenue	$ 2,177.9	$ 1,382.5	$ 6,000.4	$ 3,875.4
Operating profit	111.5	86.8	300.3	220.0

Revenue for the three and nine months ended September 30, 2007 compared with the corresponding periods in 2006 has increased as the result of higher project execution activities on major projects awarded over the last two years. The current year revenue growth has been accompanied by substantial operating profit increases. Operating profit margin for the three and nine months ended September 30, 2007 was 5.1 percent and 5.0 percent, respectively, compared with 6.3 percent and 5.7 percent in the corresponding 2006 periods. Margins have declined during 2007 as a number of large projects transition from engineering to construction. Although the construction phase of a project typically reflects higher dollar amounts of revenue and operating profit, the margin percentages are generally lower than the engineering phase.

New awards for the three months ended September 30, 2007 were $4.3 billion, compared with $2.9 billion for the same period in 2006. New awards during the 2007 period include $2.0 billion for a major refinery project in the Middle East. New awards during the third quarter of 2006 included a new $2.2 billion project in Saudi Arabia. Backlog at September 30, 2007 increased by 63 percent to $16.4 billion compared with $10.1 billion at September 30, 2006.

Total assets in the Oil and Gas segment increased to $753 million at September 30, 2007 from $629 million at December 31, 2006 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 September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Revenue	$ 735.4	$ 800.3	$ 2,386.0	$ 2,312.3
Operating profit	26.7	21.5	70.5	52.9

Revenue in the three months ended September 30, 2007 declined 8 percent compared with the same period in 2006 reflecting a modest reduction in overall project activity. Nine month 2007 revenue was essentially flat compared with the same period in 2006. Operating profit and margin

percentages have increased during the three and nine month periods ended September 30, 2007 compared with the same periods in 2006, largely on the strength of mining project performance and lower charges associated with the transportation infrastructure project discussed below. Operating profit for the segment during the 2007 periods include the impact of provisions totaling $4.7 million and $16.0 million for a fixed price transportation infrastructure project in California. Provisions totaling $22 million and $27 million were recognized during the three and nine months ended September 30, 2006, respectively, relating to the project. The contract, which is being executed by a 50/50 joint venture in which the company participates, continues to be subject to circumstances including owner-directed scope changes leading to quantity growth, cost escalation, additional labor and schedule delays, resulting in additional cost and claims against the client.

New awards for the three months ended September 30, 2007 were $364 million compared with $743 million for the 2006 comparison period. New awards during the current and prior year have been concentrated in the mining sector. Backlog decreased slightly to $5.2 billion at September 30, 2007 compared with $5.3 billion at September 30, 2006.

Total assets in the Industrial & Infrastructure segment increased to $829 million at September 30, 2007 from $686 million at December 31, 2006 primarily related to the build out of the National Roads Telecommunications Services project as discussed below.

GOVERNMENT

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in millions)	2007	2006	2007	2006
Revenue	$ 336.6	$ 550.3	$ 1,007.7	$ 2,500.2
Operating profit (loss)	(2.1)	(95.2)	23.6	8.0

As expected, a substantial decrease in revenue and operating profit occurred in the three and nine months ended September 30, 2007 compared with the same periods in the prior year. This was primarily the result of the significant contributions from Federal Emergency Management Agency (FEMA) hurricane relief and Iraq reconstruction work, as well as the Fernald environmental project, during the 2006 periods. The Fernald contract is substantially complete and the volume of Iraq and FEMA task orders has been significantly lower in 2007. Operating profit in the three months ended September 30, 2007 includes a provision of $20.9 million on a fixed-priced project at the Bagram Air Base in Afghanistan relating to subcontractor execution and quality control issues and liquidated damages due to the resulting delay in project completion. Provisions totaling $13 million and $29 million in the three and nine months ended September 30, 2006 were recognized on this project primarily due to subcontractor performance and quality issues. Operating profit in 2006 was also adversely impacted by provisions on certain embassy projects for the United States Department of State. Provisions on the embassy projects totaled $133 million and $154 million in the three and nine months ended September 30, 2006, respectively.

New awards of $708 million in the three months ended September 30, 2007 compares with $731 million during the 2006 period. Backlog at September 30, 2007 decreased to $839 million from $928 million at the end of the third quarter of 2006.

Total assets in the Government segment decreased to $321 million at September 30, 2007 from $597 million at December 31, 2006 due to the billing and collection of substantially all of the previously unbilled fees on the Fernald project and progress towards completion on the FEMA and Iraq reconstruction contracts.

GLOBAL SERVICES

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

(in millions)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Revenue	$ 541.7	$ 484.4	$ 1,774.4	$ 1,427.2
Operating profit	47.5	31.5	142.6	107.0

Revenue and operating profit increased significantly during the three and nine months ended September 30, 2007 compared with the same periods in 2006, reflecting continued growth across the segment s various service lines. The operating profit and margin was favorably impacted during 2006 primarily due to hurricane recovery support activities.

New awards and backlog for Global Services reflect operations and maintenance activities only. The equipment, temporary staffing and global procurement operations do not report backlog due to the short turnaround between the receipt of new awards and the recognition of revenue. New awards for the three months ended September 30, 2007 were $540 million compared with $221 million for the 2006 comparison period. Current quarter new awards include new work and renewals for two key clients. Backlog for Global Services at September 30, 2007 was $2.7 billion, up from $2.4 billion at September 30, 2006 reflecting improved new awards over the last 12 months.

POWER

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in millions)	2007	2006	2007	2006
Revenue	$ 323.6	$ 146.5	$ 810.1	$ 330.2
Operating profit	5.9	2.0	17.2	4.7

Higher levels of project execution activity during 2007 have given rise to improved operating profit for the segment compared with the 2006 periods, which included a loss on one project during the first quarter of that year.

New project awards in the third quarter of 2007 were $71 million compared with $158 million in the 2006 comparison period. Backlog at September 30, 2007 was $2.8 billion, up from $1.1 billion at September 30, 2006.

OTHER

Corporate administrative and general expense for the three and nine months ended September 30, 2007 was $44.9 million and $142.0 million, respectively, compared with $32.6 million and $128.7 million in the corresponding periods of 2006. Compensation cost included in corporate administrative and general expense increased during the three and nine months ended September 30, 2007 compared with the corresponding 2006 period as a result of the strong 2007 operating performance and the company stock price increase. Corporate administrative and general expense for the three and nine months ended September 30, 2006 included $3.1 million and $14.4 million, respectively, relating to the relocation of the corporate office during that year.

Net interest income of $10.7 million and $23.0 million during the three and nine month periods ended September 30, 2007 compares with net interest expense of $0.1 million and $0.7 million during the corresponding periods of 2006. This improvement is the primary result of

significantly higher cash balances during the current year.

Income tax expense for the three and nine months ended September 30, 2007 and 2006 is discussed above under Results of Operations .

ACCOUNTING PRONOUNCEMENTS

On August 31, 2007 the Financial Accounting Standards Board (FASB) issued for comment 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, if approved, would become effective for financial statements issued for fiscal years beginning after December 15, 2007 and would be applied retrospectively to all periods presented. Management is currently evaluating the impact on the company s financial position, results of operations and cash flows if the proposed FSP APB 14-a is issued as currently drafted.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of SFAS No. 157 on the company s financial position, results of operations and cash flows.

In June 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprises financial statements in accordance with SFAS No. 109. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Also, the interpretation provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006, and the company adopted this interpretation in the first quarter of 2007.

As a result of the adoption of FIN 48, the company recognized a cumulative-effect adjustment of $45 million, increasing its liability for unrecognized tax benefits, interest and penalties and reducing the January 1, 2007 balance of retained earnings. As of the date of adoption, including the impact of recognizing the increase in liability noted above, the company s unrecognized tax benefits totaled $351 million of which $166 million, if recognized, would affect the company s effective tax rate. There was no material change in the liability for unrecognized tax benefits during the three and nine months ended September 30, 2007.

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 tax estimates for its tax positions are reasonable, the final outcome of tax audits could be materially different, both favorable and unfavorable. 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 1996.

In connection with the U.S. Internal Revenue Service (IRS) examination of the company s income tax returns for the tax years beginning November 1, 1995 through December 31, 2000, the IRS proposed certain significant adjustments that, if sustained, would result in additional taxes and penalties. The company reached a tentative agreement with IRS Appeals in September 2007, which is subject to review by the Congressional Joint Committee on Taxation (Joint Committee). Although the final outcome is not determinable until the Joint Committee completes its review, the company anticipates significant favorable adjustments to unrecognized tax benefits within the next six months.

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The company recognizes potential interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. As of September 30, 2007, the accrual totaled $74 million for the potential payment of interest and penalties, including $3 million and $7 million that was recognized during the three and nine months then ended, respectively.

LITIGATION AND MATTERS IN DISPUTE RESOLUTION

As of September 30, 2007, the following matters relating to completed and in progress projects are 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 10 to the Condensed Consolidated Financial Statements.

FINANCIAL POSITION AND LIQUIDITY

During the nine months ended September 30, 2007, cash generated by operating activities of $673 million resulted from earnings sources and reduced working capital, which includes the billing and collection of fees on the Fernald project. During the corresponding 2006 period, cash generated by operating activities resulted primarily from earnings sources.

Cash utilized by investing activities was $159 million during the nine months ended September 30, 2007 compared with $161.4 million in the 2006 comparison period. Capital expenditures were $200.9 million in the nine months ended September 30, 2007 compared with $187.6 million during the 2006 period, which included construction of the new headquarters facility. Expenditures during the current year include significant amounts relating to equipment operations and investments in computer infrastructure upgrades.

Financing activities in the first nine months of both 2007 and 2006 include non-recourse project financing of the National Roads Telecommunications Services Project discussed below. Also impacting cash flows in the first nine months of both 2007 and 2006 was $11.0 million and $15.1 million, respectively, in cash received from the exercise of stock options. During the third quarter of 2006, a warrant for the purchase of 460,000 shares was exercised, yielding proceeds of $16.6 million. Declared dividends are typically paid during the month following the quarter in which they are declared. However, for the dividend paid to shareholders as of January 3, 2006, payment by the company to the disbursing agent occurred in the month of December 2005, resulting in no cash payment by the company in the first quarter of 2006. The company s total debt to total capitalization (debt-to-capital) ratio at September 30, 2007 was 23.9 percent compared with 24.4 percent at December 31, 2006.

During 2007, exchange rates for functional currencies for most of the company s international operations strengthened 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 on hand, generated from operations and supplemented by borrowings under credit facilities and the issuance of debt or equity securities, if required, are expected to be sufficient to fund operating requirements.

In December 2004, the company irrevocably elected to pay the principal amount of its Convertible Senior Notes (the Notes) in cash if a specified trading price of the company s common stock (the trigger price) is achieved and maintained for a specified period and the Notes are presented by the holders for conversion. 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 September 30, 2007 and December 31, 2006. The company cannot reasonably estimate the amount, if any, of the Notes that will be presented for conversion, and will use available cash balances to satisfy any required repayments.

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 for performance and completion guarantees on engineering and construction contracts. At September 30, 2007, the company had utilized $895 million of its letter of credit capacity. 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 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 September 30, 2007, no material changes to the amount of financial or performance guarantees outstanding have occurred since the filing of the company s December 31, 2006 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 September 30, 2007, no material changes to financial guarantees of the debt of third parties had occurred since the filing of the company s December 31, 2006 annual report on Form 10-K and the carrying value of recorded guarantee obligations was not significant as of either of those dates.

National Roads Telecommunications Services (NRTS) Project

During 2005, the company s Industrial & Infrastructure segment was awarded a $544 million project by a joint venture, GeneSYS Telecommunications Limited (GeneSYS), which is consolidated in the company s consolidated financial statements. The project was entered into with the United Kingdom Secretary of State for Transport (the Highways Agency) to design, build, maintain and finance a new integrated transmission network throughout England s motorways. The project will be executed by GeneSYS, in which the company owns a 45 percent

interest, and HSBC Infrastructure Fund Management Limited, which owns a 55 percent interest. GeneSYS will finance the engineering and construction (E&C) of upgraded telecommunications infrastructure with approximately $285 million (£140 million) of non-recourse debt (the term loan facility) from a consortium of lenders (the Banks) along with joint venture member capital contributions. During September 2007, the joint venture members contributed

$44 million to fund their equity commitments. The funds were used to repay debt from banks including the company s equity bridge loan. In early October 2007, the newly constructed network achieved operational status.

Based on a qualitative analysis of the operations of GeneSYS and the variable interests of all parties to the arrangement, under the provisions of FIN 46-R the company has been determined to be the primary beneficiary of the joint venture. The company s condensed consolidated financial statements include the accounts of GeneSYS, and, accordingly, the non-recourse debt provided by the Banks totaling $278 million and $193 million at September 30, 2007 and December 31, 2006, respectively.

The term loan facility provides for interest only at LIBOR plus a margin of 95 basis points during construction of the upgraded facilities reducing to a margin of 90 basis points after completion of construction and continuing until fully repaid. Commitment fees are payable on unused portions of the facility. Payments commence in 2008 and are due in installments over the term of the service period ending in 2016.

The term loan facility is an obligation of GeneSYS and will never be a debt obligation of the company because it is non-recourse to the joint venture members. Accordingly, in the event of a default on the term loans, the lenders may only look to the resources of GeneSYS for repayment. The debt will never be repayable from assets of the company beyond its gross $20 million equity investment plus any un-remitted profits in the venture.

The contract has been segmented between the E&C and operations & maintenance (O&M) portions of the work to be performed. The E&C portion of the work is being accounted for using contract accounting revenue recognition principles. As of September 30, 2007, a total of $254 million of E&C revenue has been recognized, including $79 million during 2007, for which the related receivable is included primarily in other noncurrent assets in the accompanying Condensed Consolidated Balance Sheet. Revenue in connection with O&M services including on-demand services will be recognized as earned through the life of the contract.

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 September 30, 2007, the company had forward foreign exchange contracts of less than 12 months duration to exchange major world currencies for U.S. dollars. The total gross notional amount of these contracts was $96 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes on this matter in the first nine months of 2007. Accordingly, the disclosures provided in the Annual Report on Form 10-K for the year ended December 31, 2006 remain current.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in alerting them on a timely basis to information relating to the company that is required to be included in our periodic reports filed with the SEC.

To maintain a cost-effective controls structure, management necessarily applied its judgment in assessing the cost and benefits of such controls and procedures, which, by their nature, can only provide reasonable assurance that our management s control objectives are met. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the nine months ended on the date of this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FLUOR CORPORATION

CHANGES IN CONSOLIDATED BACKLOG

UNAUDITED

(in millions)	Three Months Ended September 30 2007	2006
Backlog beginning of period	$ 25,698.8	$ 18,030.2
New awards	6,013.3	4,790.7
Adjustments and cancellations, net	180.0	245.0
Work performed	(4,017.9)	(3,275.9)
Backlog end of period	$ 27,874.2	$ 19,790.0

(in millions)	Nine months ended September 30 2007	2006
Backlog beginning of period	$ 21,877.7	$ 14,926.6
New awards	16,274.6	14,372.1
Adjustments and cancellations, net	1,398.7	658.6
Work performed	(11,676.8)	(10,167.3)
Backlog end of period	$ 27,874.2	$ 19,790.0

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Fluor and its subsidiaries, incidental to 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 based on reports of counsel, any liability arising from these matters individually and in the aggregate are not expected to have a material adverse effect upon 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 Footnote 10 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, 2006.

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 September 30, 2007 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act:

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 Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Program [2]
July 1, 2007 July 31, 2007	2,787	$114.64	N/A	4,138,400
August 1, 2007 August 31, 2007	12,133	$114.84	N/A	4,138,400
September 1, 2007 September 30, 2007	8,625	$131.00	N/A	4,138,400
Total	23,545	$120.74		

(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. That authorization is ongoing and does not have an expiration date.

Item 6. Exhibits

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000).
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 June 15, 2007).
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 August 2, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q filed on August 7, 2006).
10.5	Fluor Corporation Executive Deferred Compensation Plan, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.10 to the Registrant s Annual Report on Form 10-K filed on March 21, 2002).
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 10.13 to the Registrant s Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000).
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 10.2 to the Registrant s Annual Report on Form 10-K filed on March 15, 2004).
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 (incorporated by reference to Exhibit 10.20 to the Registrant s Annual Report on Form 10-K filed on March 21, 2002).

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).
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.*
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*

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* New exhibit filed with this report.

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:	November 7, 2007	/s/ D. Michael Steuert D. Michael Steuert Senior Vice President and Chief Financial Officer
Date:	November 7, 2007	/s/ V.L. Prechtl V. L. Prechtl Vice President and Controller

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