

FLUOR CORP  
Form 10-Q  
October 31, 2013  
Table of Contents

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2013

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**

(State or other jurisdiction of  
incorporation or organization)

**6700 Las Colinas Boulevard  
Irving, Texas**

(Address of principal executive offices)

**33-0927079**

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

**75039**

(Zip Code)

Edgar Filing: FLUOR CORP - Form 10-Q

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions 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   
(Do not check if a smaller reporting company)

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 October 25, 2013, 163,352,559 shares of the registrant's common stock, \$0.01 par value, were outstanding.

---

Table of Contents

**FLUOR CORPORATION**

**FORM 10-Q**

**September 30, 2013**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<u>Part I:</u>	
<u>Financial Information</u>	
<u>Item 1:</u>	
<u>Financial Statements</u>	
<u>Condensed Consolidated Statement of Earnings for the Three and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	2
<u>Condensed Consolidated Statement of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheet as of September 30, 2013 and December 31, 2012 (Unaudited)</u>	4
<u>Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2:</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3:</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4:</u>	
<u>Controls and Procedures</u>	32
<u>Changes in Consolidated Backlog (Unaudited)</u>	33
<u>Part II:</u>	
<u>Other Information</u>	
<u>Item 1:</u>	
<u>Legal Proceedings</u>	34
<u>Item 1A:</u>	
<u>Risk Factors</u>	34
<u>Item 2:</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 6:</u>	
<u>Exhibits</u>	35
	<b>3</b>



Table of Contents**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,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>TOTAL REVENUE</b>	\$ 6,684,216	\$ 7,136,056	\$ 21,060,168	\$ 20,554,413
<b>TOTAL COST OF REVENUE</b>	6,329,685	6,829,781	20,030,907	19,653,774
<b>OTHER (INCOME) AND EXPENSES</b>				
Corporate general and administrative expense	46,070	40,884	110,590	109,932
Interest expense	6,435	6,890	19,838	20,381
Interest income	(2,716)	(6,001)	(10,948)	(23,157)
Total cost and expenses	6,379,474	6,871,554	20,150,387	19,760,930
<b>EARNINGS BEFORE TAXES</b>	304,742	264,502	909,781	793,483
<b>INCOME TAX EXPENSE</b>	87,391	92,164	271,834	251,449
<b>NET EARNINGS</b>	217,351	172,338	637,947	542,034
<b>LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	44,305	27,755	137,031	81,379
<b>NET EARNINGS ATTRIBUTABLE TO FLUOR CORPORATION</b>	\$ 173,046	\$ 144,583	\$ 500,916	\$ 460,655
<b>BASIC EARNINGS PER SHARE</b>	\$ 1.06	\$ 0.87	\$ 3.08	\$ 2.74
<b>DILUTED EARNINGS PER SHARE</b>	\$ 1.05	\$ 0.86	\$ 3.05	\$ 2.72
<b>SHARES USED TO CALCULATE EARNINGS PER SHARE</b>				
BASIC	162,940	166,660	162,715	167,925
DILUTED	164,845	167,968	164,324	169,271
<b>DIVIDENDS DECLARED PER SHARE</b>	\$ 0.16	\$ 0.16	\$ 0.48	\$ 0.48

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**FLUOR CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

UNAUDITED

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>NET EARNINGS</b>	\$ 217,351	\$ 172,338	\$ 637,947	\$ 542,034
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:</b>				
Foreign currency translation adjustment	26,192	24,168	(30,555)	27,416
Ownership share of equity method investees other comprehensive income (loss)	2,262	133	8,353	(1,356)
Defined benefit pension and postretirement plan adjustments	(4,045)	1,027	4,780	6,367
Unrealized gain (loss) on derivative contracts	1,015	412	(827)	2,001
Unrealized gain (loss) on debt securities	365	393	(732)	285
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>25,789</b>	<b>26,133</b>	<b>(18,981)</b>	<b>34,713</b>
<b>COMPREHENSIVE INCOME</b>	<b>243,140</b>	<b>198,471</b>	<b>618,966</b>	<b>576,747</b>
<b>LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>43,902</b>	<b>27,505</b>	<b>136,681</b>	<b>80,792</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO FLUOR CORPORATION</b>	<b>\$ 199,238</b>	<b>\$ 170,966</b>	<b>\$ 482,285</b>	<b>\$ 495,955</b>

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**FLUOR CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

UNAUDITED

(in thousands, except share amounts)	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (\$597,484 and \$411,550 related to variable interest entities ( VIEs ))\$	2,537,570	\$ 2,154,541
Marketable securities, current (\$12,068 and \$30,369 related to VIEs)	157,910	137,127
Accounts and notes receivable, net (\$208,819 and \$193,354 related to VIEs)	1,156,387	1,242,691
Contract work in progress (\$280,350 and \$221,897 related to VIEs)	2,102,713	1,942,679
Deferred taxes	267,082	249,839
Other current assets	219,692	367,260
<b>Total current assets</b>	<b>6,441,354</b>	<b>6,094,137</b>
Marketable securities, noncurrent	281,999	318,355
Property, plant and equipment ((net of accumulated depreciation of \$1,113,421 and \$1,032,509) (\$96,699 and \$105,692 related to VIEs))	937,066	951,255
Investments and goodwill	342,144	244,226
Deferred taxes	116,164	79,357
Deferred compensation trusts	364,622	332,904
Other	243,819	255,809
<b>TOTAL ASSETS</b>	<b>\$ 8,727,168</b>	<b>\$ 8,276,043</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Trade accounts payable (\$342,972 and \$295,972 related to VIEs)	\$ 1,974,777	\$ 1,954,108
Convertible senior notes, notes payable and other borrowings	25,433	20,792
Advance billings on contracts (\$318,442 and \$300,491 related to VIEs)	796,601	870,147
Accrued salaries, wages and benefits (\$75,870 and \$59,183 related to VIEs)	713,971	755,075
Other accrued liabilities (\$26,189 and \$6,478 related to VIEs)	301,399	286,992
<b>Total current liabilities</b>	<b>3,812,181</b>	<b>3,887,114</b>
<b>LONG-TERM DEBT DUE AFTER ONE YEAR</b>	<b>496,494</b>	<b>520,205</b>
<b>NONCURRENT LIABILITIES</b>	<b>474,306</b>	<b>441,630</b>
<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>EQUITY</b>		
<b>Shareholders' equity</b>		
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 163,261,653 and 162,359,906 shares in 2013 and 2012, respectively	1,633	1,624
Additional paid-in capital	48,550	
Accumulated other comprehensive loss	(276,481)	(257,850)



Edgar Filing: FLUOR CORP - Form 10-Q

Retained earnings	4,019,910	3,597,521
Total shareholders' equity	3,793,612	3,341,295
Noncontrolling interests	150,575	85,799
Total equity	3,944,187	3,427,094
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 8,727,168	\$ 8,276,043

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

## FLUOR CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

(in thousands)	Nine Months Ended September 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 637,947	\$ 542,034
Adjustments to reconcile net earnings to cash provided (utilized) by operating activities:		
Depreciation of fixed assets	162,264	155,497
Amortization of intangibles	576	1,539
Gain on sale of an equity method investment	(2,370)	
Restricted stock and stock option amortization	31,861	28,240
Deferred compensation trust	(31,718)	(25,019)
Deferred compensation obligation	34,588	28,813
Deferred taxes	(40,980)	(28,856)
Excess tax benefit from stock-based plans	(4,501)	(4,318)
Retirement plan accrual, net of contributions	2,436	7,761
Changes in operating assets and liabilities	(77,983)	(186,378)
Undistributed earnings of equity method investments	(425)	(14,755)
Other items	955	5,744
Cash provided by operating activities	712,650	510,302
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of marketable securities	(348,949)	(813,440)
Proceeds from the sales and maturities of marketable securities	361,084	724,635
Capital expenditures	(181,059)	(188,876)
Proceeds from disposal of property, plant and equipment	33,630	65,623
Investments in partnerships and joint ventures	(37,540)	(12,028)
Consolidation of a variable interest entity	24,675	
Proceeds from sale of an equity method investment	3,005	
Acquisitions	(7,674)	(19,337)
Other items	8,988	(7,697)
Cash utilized by investing activities	(143,840)	(251,120)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase of common stock		(164,187)
Dividends paid	(52,457)	(75,646)
Repayment of 5.625% Municipal Bonds	(17,795)	
Repayment of convertible debt and notes payable	(8,640)	(903)
Distributions paid to noncontrolling interests	(79,549)	(61,917)
Capital contributions by noncontrolling interests	1,549	3,553

Edgar Filing: FLUOR CORP - Form 10-Q

Taxes paid on vested restricted stock	(11,404)	(11,696)
Stock options exercised	21,613	10,155
Excess tax benefit from stock-based plans	4,501	4,318
Other items	6,467	6,845
Cash utilized by financing activities	(135,715)	(289,478)
Effect of exchange rate changes on cash	(50,066)	19,911
Increase (Decrease) in cash and cash equivalents	383,029	(10,385)
Cash and cash equivalents at beginning of period	2,154,541	2,161,411
Cash and cash equivalents at end of period	\$ 2,537,570	\$ 2,151,026

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**FLUOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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, 2012 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, 2013 may not necessarily be 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 of a normal recurring nature which, in the opinion of management, are necessary to present fairly its consolidated financial position as of September 30, 2013 and its consolidated results of operations and cash flows for the interim periods presented. All significant intercompany transactions of consolidated subsidiaries are eliminated. Certain amounts in 2012 have been reclassified to conform to the 2013 presentation. Management has evaluated all material events occurring subsequent to the date of the financial statements up to the date this quarterly report is filed on Form 10-Q.

(2) New accounting pronouncements implemented by the company during the nine months ended September 30, 2013 or requiring implementation in future periods are discussed below or elsewhere in the notes, where appropriate.

In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU clarifies the financial statement presentation of unrecognized tax benefits in certain circumstances. ASU 2013-11 is effective for interim and annual reporting periods beginning after December 15, 2013 and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Management does not expect the adoption of ASU 2013-11 to have a material impact on the company's financial position, results of operations or cash flows.

In April 2013, the FASB issued ASU 2013-07, Liquidation Basis of Accounting, which clarifies when an entity should apply the liquidation basis of accounting. In addition, ASU 2013-07 provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. ASU 2013-07 is effective for entities that determine liquidation is imminent during interim and annual reporting periods beginning after December 15, 2013. Management does not expect the adoption of ASU 2013-07 to have a material impact on the company's financial position, results of operations or cash flows.

In March 2013, the FASB issued ASU 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The objective of ASU 2013-05 is to resolve a practice diversity in circumstances where reporting entities release cumulative translation adjustments into net income when a parent either sells a part or all of its investment in a foreign entity, or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity.

## Edgar Filing: FLUOR CORP - Form 10-Q

ASU 2013-05 is effective for interim and annual reporting periods beginning after December 15, 2013 and will be applied on a prospective basis. Management does not expect the adoption of ASU 2013-05 to have a material impact on the company's financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*, which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations and settled litigation and judicial rulings. ASU 2013-04 is effective for interim and annual reporting periods beginning after December 15, 2013. Management does not expect the adoption of ASU 2013-04 to have a material impact on the company's financial position, results of operations or cash flows.

In the first quarter of 2013, the company adopted ASU 2012-04, *Technical Corrections and Improvements*. The amendments in ASU 2012-04 make technical corrections, clarifications and limited-scope improvements to various topics throughout the Accounting Standards Codification (ASC). The adoption of ASU 2012-04 did not have a material impact on the company's financial position, results of operations or cash flows.

In the first quarter of 2013, the company adopted ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*.

Table of Contents

## FLUOR CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

ASU 2012-02 allows entities testing an indefinite-lived intangible asset for impairment the option of performing a qualitative assessment before calculating the fair value of the asset. If entities determine, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is, more likely than not, greater than the carrying amount, a quantitative calculation would not be needed. The adoption of ASU 2012-02 did not have a material impact on the company's financial position, results of operations or cash flows.

(3) The tax effects of the components of other comprehensive income (loss) (OCI) for the three months ended September 30, 2013 and 2012 are as follows:

(in thousands)	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Other comprehensive income (loss):						
Foreign currency translation adjustment	\$ 42,074	\$ (15,882)	\$ 26,192	\$ 38,768	\$ (14,600)	\$ 24,168
Ownership share of equity method investees other comprehensive income	3,118	(856)	2,262	165	(32)	133
Defined benefit pension and postretirement plan adjustments	(6,472)	2,427	(4,045)	1,643	(616)	1,027
Unrealized gain on derivative contracts	1,700	(685)	1,015	693	(281)	412
Unrealized gain on debt securities	585	(220)	365	630	(237)	393
Total other comprehensive income	41,005	(15,216)	25,789	41,899	(15,766)	26,133
Less: Other comprehensive loss attributable to noncontrolling interests	(403)		(403)	(250)		(250)
Other comprehensive income attributable to Fluor Corporation	\$ 41,408	\$ (15,216)	\$ 26,192	\$ 42,149	\$ (15,766)	\$ 26,383

The tax effects of the components of OCI for the nine months ended September 30, 2013 and 2012 are as follows:

Edgar Filing: FLUOR CORP - Form 10-Q

(in thousands)	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Other comprehensive income (loss):						
Foreign currency translation adjustment	\$ (48,753)	\$ 18,198	\$ (30,555)	\$ 43,922	\$ (16,506)	\$ 27,416
Ownership share of equity method investees other comprehensive income (loss)	11,471	(3,118)	8,353	(1,138)	(218)	(1,356)
Defined benefit pension and postretirement plan adjustments	7,648	(2,868)	4,780	10,187	(3,820)	6,367
Unrealized gain (loss) on derivative contracts	(1,247)	420	(827)	3,465	(1,464)	2,001
Unrealized gain (loss) on debt securities	(1,170)	438	(732)	456	(171)	285
Total other comprehensive income (loss)	(32,051)	13,070	(18,981)	56,892	(22,179)	34,713
Less: Other comprehensive loss attributable to noncontrolling interests	(350)		(350)	(587)		(587)
Other comprehensive income (loss) attributable to Fluor Corporation	\$ (31,701)	\$ 13,070	\$ (18,631)	\$ 57,479	\$ (22,179)	\$ 35,300

Table of Contents

## FLUOR CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

In the first quarter of 2013, the company adopted ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ( AOCI ), which requires an entity to disclose additional information about reclassification adjustments, including (a) changes in AOCI balances by component and (b) significant items reclassified out of AOCI.

The changes in AOCI balances by component (after-tax) for the three months ended September 30, 2013 are as follows:

(in thousands)	Foreign Currency Translation	Ownership Share of Equity Method Investees Other Comprehensive Income (Loss)	Defined Benefit Pension and Postretirement Plans	Unrealized Gain (Loss) on Derivative Contracts	Unrealized Gain (Loss) on Available- for-Sale Securities	Accumulated Other Comprehensive Income (Loss), Net
<b>Attributable to Fluor Corporation:</b>						
Balance as of June 30, 2013	\$ (10,902)	\$ (36,928)	\$ (243,899)	\$ (10,801)	\$ (143)	\$ (302,673)
Other comprehensive income (loss) before reclassifications	26,471	2,262	(6,057)	(443)	367	22,600
Amounts reclassified from AOCI			2,012	1,582	(2)	3,592
Net other comprehensive income (loss)	26,471	2,262	(4,045)	1,139	365	26,192
Balance as of September 30, 2013	\$ 15,569	\$ (34,666)	\$ (247,944)	\$ (9,662)	\$ 222	\$ (276,481)
<b>Attributable to Noncontrolling Interests:</b>						
Balance as of June 30, 2013	\$ 8,777	\$	\$	\$	\$	\$ 8,777
Other comprehensive loss before reclassifications	(279)			(124)		(403)
Amounts reclassified from AOCI						
Net other comprehensive loss	(279)			(124)		(403)
Balance as of September 30, 2013	\$ 8,498	\$	\$	\$ (124)	\$	\$ 8,374

The changes in AOCI balances by component (after-tax) for the nine months ended as of September 30, 2013 are as follows:

(in thousands)	Foreign Currency Translation	Ownership Share of Equity Method Investees Other	Defined Benefit Pension and Postretirement	Unrealized Gain (Loss) on	Unrealized Gain (Loss) on Available- for-Sale Securities	Accumulated Other Comprehensive Income (Loss), Net
----------------	------------------------------------	--	--	---------------------------------	--	--



Edgar Filing: FLUOR CORP - Form 10-Q

		Comprehensive Income (Loss)	Plans	Derivative Contracts			
<b>Attributable to Fluor Corporation:</b>							
Balance as of December 31, 2012	\$	45,899	\$ (43,019)	\$ (252,724)	\$ (8,960)	\$ 954	\$ (257,850)
Other comprehensive income (loss) before reclassifications		(30,330)	8,353	(1,261)	(2,883)	(645)	(26,766)
Amounts reclassified from AOCI				6,041	2,181	(87)	8,135
Net other comprehensive income (loss)		(30,330)	8,353	4,780	(702)	(732)	(18,631)
Balance as of September 30, 2013	\$	15,569	\$ (34,666)	\$ (247,944)	\$ (9,662)	\$ 222	\$ (276,481)
<b>Attributable to Noncontrolling Interests:</b>							
Balance as of December 31, 2012	\$	8,723	\$	\$	\$ 1	\$	\$ 8,724
Other comprehensive loss before reclassifications		(225)			(124)		(349)
Amounts reclassified from AOCI					(1)		(1)
Net other comprehensive loss		(225)			(125)		(350)
Balance as of September 30, 2013	\$	8,498	\$	\$	\$ (124)	\$	\$ 8,374

Table of Contents

## FLUOR CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

The significant items reclassified out of AOCI and the corresponding location in and impact on the Condensed Consolidated Statement of Earnings are as follows:

(in thousands)	Location in Condensed Consolidated Statement of Earnings	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
<b>Component of AOCI:</b>			
Defined benefit pension plan adjustments	Various accounts(1)	\$ (3,220)	\$ (9,666)
Income tax benefit	Income tax expense	1,208	3,625
Net of tax		\$ (2,012)	\$ (6,041)
Unrealized loss on derivative contracts:			
Commodity contracts and foreign currency contracts	Total cost of revenue	\$ (2,112)	\$ (2,237)
Interest rate contracts	Interest expense	(419)	(1,258)
Income tax benefit	Income tax expense	949	1,315
Net of tax		(1,582)	(2,180)
Less: Noncontrolling interests	Net earnings attributable to noncontrolling interests		(1)
Net of tax and noncontrolling interests		\$ (1,582)	\$ (2,181)
Unrealized gain on available-for-sale securities	Corporate general and administrative expense	\$ 3	\$ 139
Income tax expense	Income tax expense	(1)	(52)
Net of tax		\$ 2	\$ 87

(1) Defined benefit pension plan adjustments were reclassified primarily to total cost of revenue and corporate general and administrative expense.

(4) The effective tax rate, based on the company's operating results for the three and nine months ended September 30, 2013 was 28.7 percent and 29.9 percent, respectively, compared to 34.8 percent and 31.7 percent for the corresponding periods of 2012. The effective tax rate for the three months ended September 30, 2013 was favorably impacted primarily by research tax credits, lower deferred U.S. taxes on foreign earnings and an increase in earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. The effective tax rate for the three months ended September 30, 2012 was unfavorably impacted by the payment of additional foreign taxes from the settlement of an audit and a reassessment of certain tax exposures. The effective tax rate for the nine months ended September 30, 2013 was favorably impacted by research tax credits and an increase in earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. The effective tax rate for the nine months ended September 30, 2012 was favorably impacted by the recognition of a deferred U.S. tax benefit of \$16 million primarily attributable to foreign earnings in South Africa.

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 2003.

(5) Cash paid for interest was \$20.9 million for both the nine months ended September 30, 2013 and 2012. Income tax payments, net of receipts, were \$153.3 million and \$243.2 million during the nine-month periods ended September 30, 2013 and 2012, respectively.

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

## UNAUDITED

(6) Diluted earnings per share ( EPS ) reflects the assumed exercise or conversion of all dilutive securities using the treasury stock method.

The calculations of the basic and diluted EPS for the three and nine months ended September 30, 2013 and 2012 are presented below:

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net earnings attributable to Fluor Corporation	\$ 173,046	\$ 144,583	\$ 500,916	\$ 460,655
Basic EPS:				
Weighted average common shares outstanding	162,940	166,660	162,715	167,925
Basic earnings per share	\$ 1.06	\$ 0.87	\$ 3.08	\$ 2.74
Diluted EPS:				
Weighted average common shares outstanding	162,940	166,660	162,715	167,925
Diluted effect:				
Employee stock options and restricted stock units and shares	1,490	964	1,218	1,004
Conversion equivalent of dilutive convertible debt	415	344	391	342
Weighted average diluted shares outstanding	164,845	167,968	164,324	169,271
Diluted earnings per share	\$ 1.05	\$ 0.86	\$ 3.05	\$ 2.72
Anti-dilutive securities not included above	1,845	1,653	1,914	1,529

During the three and nine months ended September 30, 2012, the company repurchased and cancelled 600,900 and 3,223,949 shares of its common stock, respectively, under its stock repurchase program for \$31 million and \$164 million, respectively.

(7) The fair value hierarchy established by ASC 820, Fair Value Measurement, prioritizes the use of inputs used in valuation techniques into the following three levels:

Edgar Filing: FLUOR CORP - Form 10-Q

- Level 1 quoted prices in active markets for identical assets and liabilities
- Level 2 inputs other than quoted prices in active markets for identical assets and liabilities that are observable, either directly or indirectly
- Level 3 unobservable inputs

Table of Contents

## FLUOR CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

The following table presents, for each of the fair value hierarchy levels required under ASC 820-10, the company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

(in thousands)	Total	September 30, 2013 Fair Value Hierarchy			Total	December 31, 2012 Fair Value Hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets(1):								
Cash and cash equivalents	\$ 19,114	\$ 19,114(2)	\$	\$	\$ 14,457	\$ 14,457(2)	\$	\$
Marketable securities, current	135,098		135,098(3)		102,439		102,439(3)	
Deferred compensation trusts	81,350	81,350(4)			80,842	80,842(4)		
Marketable securities, noncurrent	281,999		281,999(5)		318,355		318,355(5)	
Derivative assets(6)								
Commodity contracts	219		219		95		95	
Foreign currency contracts	805		805		640		640	
Liabilities(1):								
Derivative liabilities(6)								
Commodity contracts	\$ 290	\$	\$ 290	\$	\$ 28	\$	\$ 28	\$
Foreign currency contracts	3,344		3,344		2,151		2,151	

(1) The company measures and reports assets and liabilities at fair value utilizing pricing information received from third parties. The company performs procedures to verify the reasonableness of pricing information received for significant assets and liabilities classified as Level 2.

(2) Consists primarily of registered money market funds valued at fair value. These investments represent the net asset value of the shares of such funds as of the close of business at the end of the period.

(3) Consists of investments in U.S. agency securities, U.S. Treasury securities, corporate debt securities, commercial paper and other debt securities with maturities of less than one year that are valued based on pricing models, which are determined from a compilation of primarily observable market information, broker quotes in non-active markets or similar assets.

## Edgar Filing: FLUOR CORP - Form 10-Q

(4) Consists primarily of registered money market funds and an equity index fund valued at fair value. These investments, which are trading securities, represent the net asset value of the shares of such funds as of the close of business at the end of the period.

(5) Consists of investments in U.S. agency securities, U.S. Treasury securities, corporate debt securities and other debt securities with maturities ranging from one year to three years that are valued based on pricing models, which are determined from a compilation of primarily observable market information, broker quotes in non-active markets or similar assets.

(6) See Note 8 for the classification of commodity contracts and foreign currency contracts on the Condensed Consolidated Balance Sheet. Commodity contracts and foreign currency contracts are estimated using standard pricing models with market-based inputs, which take into account the present value of estimated future cash flows.

All of the company's financial instruments carried at fair value are included in the table above. All of the above financial instruments are available-for-sale securities except for those held in the deferred compensation trusts (which are trading securities) and derivative assets and liabilities. The company has determined that there was no other-than-temporary impairment of available-for-sale securities with unrealized losses, and the company expects to recover the entire cost basis of the securities. The available-for-sale securities are made up of the following security types as of September 30, 2013: money market funds of \$19 million, U.S. agency securities of \$157 million, U.S. Treasury securities of \$21 million, corporate debt securities of \$223 million, commercial paper of \$10 million and other debt securities of \$6 million. As of December 31, 2012, available-for-sale securities consisted of money market funds of \$14 million, U.S. agency securities of \$161 million, U.S. Treasury securities of \$67 million, corporate debt securities of \$184 million and other debt securities of \$9 million. The amortized cost of these available-for-sale securities is not materially different than the fair value. During the three and nine months ended September 30, 2013, proceeds from the sales and maturities of available-for-sale securities were \$29 million and \$235 million, respectively, compared to \$85 million and \$434 million, respectively, for the corresponding periods of 2012.

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

## UNAUDITED

The carrying values and estimated fair values of the company's financial instruments that are not required to be measured at fair value in the Condensed Consolidated Balance Sheet are as follows:

(in thousands)	Fair Value Hierarchy	September 30, 2013		December 31, 2012	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>					
Cash(1)	Level 1	\$ 1,604,552	\$ 1,604,552	\$ 1,343,866	\$ 1,343,866
Cash equivalents(2)	Level 2	913,904	913,904	796,218	796,218
Marketable securities, current(3)	Level 2	22,812	22,812	34,688	34,688
Notes receivable, including noncurrent portion(4)	Level 3	25,836	25,836	34,471	34,471
<b>Liabilities:</b>					
3.375% Senior Notes(5)	Level 2	\$ 496,494	\$ 493,992	\$ 496,164	\$ 527,219
1.5% Convertible Senior Notes(5)	Level 2	18,398	47,510	18,472	39,392
5.625% Municipal Bonds(5)	Level 2			17,795	17,878
Other borrowings(6)	Level 2	7,035	7,035		
Notes payable, including noncurrent portion(7)	Level 3			8,566	8,566

(1) Cash consists of bank deposits. Carrying amounts approximate fair value.

(2) Cash equivalents consist of held-to-maturity time deposits with maturities of three months or less at the date of purchase. The carrying amounts of these time deposits approximate fair value because of the short-term maturity of these instruments.

(3) Marketable securities, current consist of held-to-maturity time deposits with original maturities greater than three months that will mature within one year. The carrying amounts of these time deposits approximate fair value because of the short-term maturity of these instruments. Amortized cost is not materially different from the fair value.

(4) Notes receivable are carried at net realizable value which approximates fair value. Factors considered by the company in determining the fair value include the credit worthiness of the borrower, current interest rates, the term of the note and any collateral pledged as security. Notes receivable are periodically assessed for impairment.



(5) The fair value of the 3.375% Senior Notes, 1.5% Convertible Senior Notes and 5.625% Municipal Bonds are estimated based on quoted market prices for similar issues. During the first nine months of 2013, the company redeemed its 5.625% Municipal Bonds at a price of 100% of their principal amount.

(6) Other borrowings represent amounts outstanding under a short-term credit facility. The carrying amount of borrowings under this credit facility approximates fair value because of the short-term maturity.

(7) Notes payable consist primarily of equipment loans with banks at various interest rates with maturities ranging from less than one year to four years. The carrying value of notes payable approximates fair value. Factors considered by the company in determining the fair value include the company's current credit rating, current interest rates, the term of the note and any collateral pledged as security. During the first nine months of 2013, the company paid off the remaining balances of various notes payable that were assumed in connection with the 2012 acquisition of an equipment company.

(8) The company limits exposure to foreign currency fluctuations in most of its engineering and construction contracts through provisions that require client payments in currencies corresponding to the currencies in which cost is incurred. Certain financial exposure, which includes currency and commodity price risk associated with engineering and construction contracts, currency risk associated with intercompany transactions, deposits denominated in non-functional currencies and risk associated with interest rate volatility may subject the company to earnings volatility. In cases where financial exposure is identified, the

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

## UNAUDITED

company generally mitigates the risk by utilizing derivative instruments as hedging instruments that are designated as either fair value or cash flow hedges in accordance with ASC 815, Derivatives and Hedging. The company formally documents its hedge relationships at inception, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. The company also formally assesses, both at inception and at least quarterly thereafter, whether the hedging instruments are highly effective in offsetting changes in the fair value of the hedged items. The fair values of all hedging instruments are recognized as assets or liabilities at the balance sheet date. For fair value hedges, the effective portion of the change in the fair value of the hedging instrument is offset against the change in the fair value of the underlying asset or liability through earnings. For cash flow hedges, the effective portion of the hedging instruments' gains or losses due to changes in fair value are recorded as a component of AOCI and are reclassified into earnings when the hedged items settle. Any ineffective portion of a hedging instrument's change in fair value is immediately recognized in earnings. The company does not enter into hedging instruments or engage in hedging activities for speculative purposes. The company maintains master netting arrangements with certain counterparties to facilitate the settlement of derivative instruments; however, the company reports the fair value of derivative instruments on a gross basis.

As of September 30, 2013, the company had total gross notional amounts of \$127 million of foreign currency contracts and \$12 million of commodity contracts outstanding relating to engineering and construction contract obligations and intercompany transactions. The foreign currency contracts are of varying duration, none of which extend beyond April 2014. The commodity contracts are of varying duration, none of which extend beyond May 2017. The impact to earnings due to hedge ineffectiveness was immaterial for the three and nine months ended September 30, 2013 and 2012.

The fair values of derivatives designated as hedging instruments under ASC 815 as of September 30, 2013 and December 31, 2012 are as follows:

(in thousands)	Balance Sheet Location	Asset Derivatives		Balance Sheet Location	Liability Derivatives	
		September 30, 2013	December 31, 2012		September 30, 2013	December 31, 2012
Commodity contracts	Other current assets	\$ 219	\$ 95	Other accrued liabilities	\$ 106	\$ 15
Foreign currency contracts	Other current assets	805	640	Other accrued liabilities	3,344	2,130
Commodity contracts	Other assets			Noncurrent liabilities	184	13
Foreign currency contracts	Other assets			Noncurrent liabilities		21
<b>Total</b>		<b>\$ 1,024</b>	<b>\$ 735</b>		<b>\$ 3,634</b>	<b>\$ 2,179</b>

Edgar Filing: FLUOR CORP - Form 10-Q

The pre-tax amount of gain (loss) recognized in earnings associated with the hedging instruments designated as fair value hedges for the three and nine months ended September 30, 2013 and 2012 is as follows:

Fair Value Hedges (in thousands)	Location of Gain (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2013	2012	2013	2012
Foreign currency contracts	Corporate general and administrative expense	\$ (81)	\$ (12,075)	\$ 4,064	\$ (19,773)

The pre-tax amount of gain (loss) recognized in earnings on hedging instruments for the fair value hedges noted in the table above offset the amounts of gain (loss) recognized in earnings on the hedged items in the same locations on the Condensed Consolidated Statement of Earnings.

Table of Contents

## FLUOR CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

The after-tax amount of gain (loss) recognized in OCI associated with the derivative instruments designated as cash flow hedges is as follows:

Cash Flow Hedges (in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
Commodity contracts	\$	47	\$	619	\$	79	\$	1,011
Foreign currency contracts		(490)		884		(2,962)		2,910
Total	\$	(443)	\$	1,503	\$	(2,883)	\$	3,921

The after-tax amount of gain (loss) reclassified from AOCI into earnings associated with the derivative instruments designated as cash flow hedges is as follows:

Cash Flow Hedges (in thousands)	Location of Gain (Loss)	Three Months Ended September 30,				Nine Months Ended September 30,			
		2013		2012		2013		2012	
Commodity contracts	Total cost of revenue	\$	(1)	\$	710	\$	59	\$	1,654
Foreign currency contracts	Total cost of revenue		(1,319)		557		(1,454)		558
Interest rate contracts	Interest expense		(262)		(262)		(786)		(786)
Total		\$	(1,582)	\$	1,005	\$	(2,181)	\$	1,426

In the first quarter of 2013, the company adopted ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* and ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose the nature of its rights of setoff and related arrangements associated with its financial instruments and derivative instruments. ASU 2013-01 clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11.

In the third quarter of 2013, the company adopted ASU 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. ASU 2013-10 permits the use of the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes and also removes the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have a material impact on the company's financial position, results of operations or cash flows.

(9) Net periodic pension expense for the U.S. and non-U.S. defined benefit pension plans includes the following components:

Edgar Filing: FLUOR CORP - Form 10-Q

(in thousands)	U.S. Pension Plan				Non-U.S. Pension Plans			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012	2013	2012	2013	2012
Service cost	\$ 1,613	\$ 1,489	\$ 4,840	\$ 4,468	\$ 3,809	\$ 1,921	\$ 11,505	\$ 5,815
Interest cost	7,275	8,323	21,825	24,970	7,989	8,070	23,925	24,518
Expected return on assets	(7,744)	(8,830)	(23,232)	(26,492)	(11,527)	(10,369)	(34,507)	(31,446)
Amortization of prior service cost	26	(28)	77	(85)				
Recognized net actuarial loss	1,510	3,409	4,530	10,226	1,683	786	5,058	2,352
Net periodic pension expense	\$ 2,680	\$ 4,363	\$ 8,040	\$ 13,087	\$ 1,954	\$ 408	\$ 5,981	\$ 1,239

The company currently expects to fund approximately \$20 million to \$40 million into its defined benefit pension plans during 2013, which is expected to be in excess of the minimum funding required. During the nine months ended September 30, 2013, contributions of approximately \$11 million were made by the company.

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

## UNAUDITED

During the third quarter of 2013, the company's Board of Directors approved an amendment to the U.S. pension plan to freeze the accrual of future service-related benefits for craft participants on December 31, 2013. The amendment did not have a material impact on the plan's pension obligation or accumulated other comprehensive income.

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.

(10) In September 2011, the company issued \$500 million of 3.375% Senior Notes (the 2011 Notes) due September 15, 2021 and received proceeds of \$492 million, net of underwriting discounts and debt issuance costs. Interest on the 2011 Notes is payable semi-annually on March 15 and September 15 of each year, and began on March 15, 2012. The company may, at any time, redeem the 2011 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture. Additionally, if a change of control triggering event occurs, as defined by the terms of the indenture, the company will be required to offer to purchase the 2011 Notes at a purchase price equal to 101 percent of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. The company is generally not limited under the indenture governing the 2011 Notes in its ability to incur additional indebtedness provided the company is in compliance with certain restrictive covenants, including restrictions on liens and restrictions on sale and leaseback transactions.

In February 2004, the company issued \$330 million of 1.5% Convertible Senior Notes (the 2004 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 2004 Notes in cash. The 2004 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 was satisfied during the fourth quarter of 2012 and third quarter of 2013 and the 2004 Notes were therefore classified as short-term debt as of December 31, 2012 and September 30, 2013. During the nine months ended September 30, 2013, holders converted less than \$0.1 million of the 2004 Notes in exchange for the principal balance owed in cash plus 1,562 shares of the company's common stock. During the nine months ended September 30, 2012, holders converted \$0.9 million of the 2004 Notes in exchange for the principal balance owed in cash plus 17,352 shares of the company's common stock.

The following table presents information related to the liability and equity components of the 2004 Notes:

(in thousands)	September 30, 2013	December 31, 2012
Carrying value of the equity component	\$ 19,519	\$ 19,519
Principal amount and carrying value of the liability component	18,398	18,472

## Edgar Filing: FLUOR CORP - Form 10-Q

The 2004 Notes are convertible into shares of the company's common stock (par value \$0.01 per share) at a conversion rate of 36.6729 shares per each \$1,000 principal amount of the 2004 Notes. Interest expense for the three and nine month periods included original coupon interest of \$0.1 million and \$0.2 million, respectively, during both 2013 and 2012. The if-converted value of \$48 million was in excess of the principal value as of September 30, 2013.

In the first quarter of 2013, the company redeemed its 5.625% Municipal Bonds at a price of 100% of their principal amount and paid off the remaining balances of various notes payable that were assumed in connection with the 2012 acquisition of an equipment company.

During the third quarter of 2013, the company borrowed \$7 million under a short-term credit facility to purchase land and construction equipment associated with the equipment operations in the Global Services segment.

As of September 30, 2013, the company was in compliance with all of the financial covenants related to its debt agreements.

Table of Contents

**FLUOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

(11) The company's executive and director stock-based compensation plans are described, and informational disclosures provided, in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2012. In the first nine months of 2013 and 2012, restricted stock units and restricted shares totaling 477,731 and 450,668, respectively, were granted to executives and directors at weighted-average per share prices of \$61.45 and \$61.70, respectively. For the company's executives, the restricted units and shares granted in 2013 and 2012 vest ratably over three years. For the company's directors, the restricted units and shares granted in 2013 and 2012 vest or vested on the first anniversary of the grant. During the first nine months of 2013 and 2012, options for the purchase of 884,574 shares at a weighted-average exercise price of \$61.45 per share and 688,380 shares at a weighted-average exercise price of \$62.18 per share, respectively, were awarded to executives. The options granted in 2013 and 2012 vest ratably over three years. The options expire ten years after the grant date. In the first nine months of 2013 and 2012, performance-based Value Driver Incentive ( VDI ) units totaling 385,742 and 341,104, respectively, were granted to executives at weighted-average per share prices of \$61.45 and \$62.29, respectively. The number of units is adjusted at the end of each performance period based on the achievement of performance criteria. The VDI awards granted in 2013 vest after a period of approximately three years. The VDI awards granted in 2012 vest on the first and third anniversaries of the date of grant.

(12) The company applies the provisions of ASC 810-10-45, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net earnings attributable to the parent and to the noncontrolling interests, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated.

As required by ASC 810-10-45, the company has separately disclosed on the face of the Condensed Consolidated Statement of Earnings for all periods presented the amount of net earnings attributable to the company and the amount of net earnings attributable to noncontrolling interests. For the three and nine months ended September 30, 2013, net earnings attributable to noncontrolling interests were \$44.3 million and \$137.0 million, respectively. For the three and nine months ended September 30, 2012, net earnings attributable to noncontrolling interests were \$27.8 million and \$81.4 million, respectively. Income taxes associated with earnings attributable to noncontrolling interests were immaterial in all periods presented. Distributions paid to noncontrolling interests were \$79.5 million and \$61.9 million for the nine months ended September 30, 2013 and 2012, respectively. Capital contributions by noncontrolling interests were \$1.5 million and \$3.6 million for the nine months ended September 30, 2013 and 2012, respectively.

(13) The company and certain of its subsidiaries are involved in various litigation matters. 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 its clients have made claims arising from the performance under its contracts. The company recognizes revenue, but not profit, for certain significant claims (including change orders in dispute and unapproved change orders in regard to both scope and price) when it is determined that recovery of incurred costs is probable and the amounts can be reliably estimated. Under ASC 605-35-25, these requirements are satisfied when (a) the contract or other evidence provides a legal basis for the claim, (b) additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in the company's performance, (c) claim-related costs are identifiable and considered reasonable in view of the work performed, and (d) evidence supporting the claim is objective and verifiable. The company periodically evaluates its position and the amounts recognized in revenue with respect to all its claims. Recognized claims against clients amounted to \$20 million as of December 31, 2012 and are included in contract work in progress for that period in the accompanying Condensed



## Edgar Filing: FLUOR CORP - Form 10-Q

Consolidated Balance Sheet. There were no recognized claims against clients as of September 30, 2013.

As of September 30, 2013, several matters were in the litigation and dispute resolution process. The following discussion provides a background and current status of these matters:

### *St. Joe Minerals Matters*

Since 1995, the company has been named as a defendant in a number of lawsuits alleging injuries resulting from the lead business of St. Joe Minerals Corporation ( St. Joe ) and The Doe Run Company ( Doe Run ) in Herculaneum, Missouri, which are discontinued operations. The company was named as a defendant in these lawsuits as a result of its ownership or other interests in St. Joe and Doe Run in the period between 1981 and 1994. In 1994, the company sold its interests in St. Joe and Doe Run, along with all liabilities associated with the lead business, pursuant to a sale agreement in which the buyer agreed to indemnify the company for those liabilities. Until December 2010, substantially all the lawsuits were settled and paid by the buyer; and in all cases the company was fully released.

Table of Contents

**FLUOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

In December 2010, the buyer settled with certain plaintiffs without obtaining a release for the benefit of the company, leaving the company to defend its case with these plaintiffs in the City of St. Louis Circuit Court. In late July 2011, the jury reached an unexpected verdict in this case, ruling in favor of 16 of the plaintiffs and against the company and certain former subsidiaries for \$38.5 million in compensatory and economic damages and \$320 million in punitive damages. In August 2011, the court entered judgments based on the verdict.

In December 2011, the company appealed the judgments of the court. Briefings and oral arguments before the Missouri Court of Appeals (Eastern District) have been completed, and the company is awaiting a decision. The company strongly believes that the judgments are not supported by the facts or the law and that it is probable that such judgments will be overturned. Therefore, based upon the present status of this matter, the company does not believe it is probable that a loss will be incurred. Accordingly, the company has not recorded a charge as a result of the judgments. The company has also taken steps to enforce its rights to the indemnification described above.

The company, the buyer and other entities are defendants in 21 additional lawsuits relating to the lead business of St. Joe and Doe Run. The company believes it has strong defenses to these lawsuits and is vigorously defending its position. The company is unable to estimate a range of possible losses in these lawsuits. In addition, the company has filed claims for indemnification under the sale agreement for other matters raised in these lawsuits. While management believes the company will be ultimately successful in these various matters, if the company was unsuccessful in its appeal of the ruling referenced above or in any of the other lawsuits, or in the prosecution of and collection on its indemnity claims, the company could recognize a material charge to its earnings.

*Embassy Projects*

The company constructed 11 embassy projects for the U.S. Department of State under fixed-price contracts. Some of these projects were adversely impacted by higher costs due to schedule extensions, scope changes causing material deviations from the Standard Embassy Design, increased costs 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. All embassy projects were completed prior to 2011.

During the first quarter of 2012, the company received an adverse judgment from the Board of Contract Appeals ( BCA ) associated with a claim on one embassy project and, as a result, recorded a charge of \$13 million. The company filed an appeal, but the Court of Appeals for the Federal Circuit summarily affirmed the BCA 's decision in September 2013. The company has chosen not to further appeal this matter.

A hearing on the final embassy claim was held during the second quarter of 2012, and a decision was rendered during the second quarter of 2013. While the BCA found in favor of Fluor on certain of its claims, the BCA award was less than the company 's demand which resulted in a

charge to earnings of approximately \$17 million during the second quarter of 2013. The company has chosen not to appeal the BCA's decision in this matter.

*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 awarding \$99 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 awarded damages for the extra work and the alleged interference.

Table of Contents

**FLUOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

The company appealed the decision and the judgment against the company was reversed in its entirety in December 2008. Both parties appealed the decision to the Texas Supreme Court, and the court denied both petitions. The company requested rehearing on two issues to the Texas Supreme Court, and that request was denied. The Texas Supreme Court remanded the matter back to the trial court for a new trial. The matter was stayed, pending resolution of certain technical issues associated with the 2011 bankruptcy filing by the plaintiff's parent. These issues have been resolved. The matter has been remanded to the court in Jefferson County, Texas. Based upon the present status of this matter, the company does not believe that there is a reasonable possibility that a loss will be incurred.

(14) In the ordinary course of business, the company enters into various agreements providing performance assurances and guarantees to clients on behalf of certain unconsolidated and consolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The performance 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 amount of future payments that the company could be required to make under outstanding performance guarantees, which represents the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts, was estimated to be \$8.6 billion as of September 30, 2013. 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 work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee 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. The company assessed its performance guarantee obligation as of September 30, 2013 and December 31, 2012 in accordance with ASC 460, Guarantees and the carrying value of the liability was not material.

Financial guarantees, made in the ordinary course of business 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. These arrangements may require the borrower to pledge collateral to support the fulfillment of the borrower's obligation.

(15) In the normal course of business, the company forms partnerships or joint ventures primarily for the execution of single contracts or projects. The majority of these partnerships or joint ventures are characterized by a 50 percent or less, noncontrolling ownership or participation interest, with decision making and distribution of expected gains and losses typically being proportionate to the ownership or participation interest. Many of the partnership and joint venture agreements provide for capital calls to fund operations, as necessary. Such funding is infrequent and is not anticipated to be material. The company accounts for its partnerships and joint ventures in accordance with ASC 810.

In accordance with ASC 810, the company assesses its partnerships and joint ventures at inception to determine if any meet the qualifications of a VIE. The company considers a partnership or joint venture a VIE if either (a) the total equity investment is not sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) characteristics of a controlling financial interest are missing (either

the ability to make decisions through voting or other rights, the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity), or (c) the voting rights of the equity holders are not proportional to their obligations to absorb the expected losses of the entity and/or their rights to receive the expected residual returns of the entity, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Upon the occurrence of certain events outlined in ASC 810, the company reassesses its initial determination of whether the partnership or joint venture is a VIE. The majority of the company's partnerships and joint ventures qualify as VIEs because the total equity investment is typically nominal and not sufficient to permit the entity to finance its activities without additional subordinated financial support.

Table of Contents

**FLUOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

UNAUDITED

The company also performs a qualitative assessment of each VIE to determine if the company is its primary beneficiary, as required by ASC 810. The company concludes that it is the primary beneficiary and consolidates the VIE if the company has both (a) the power to direct the economically significant activities of the entity and (b) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The company considers the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights and board representation of the respective parties in determining if the company is the primary beneficiary. The company also considers all parties that have direct or implicit variable interests when determining whether it is the primary beneficiary. As required by ASC 810, management's assessment of whether the company is the primary beneficiary of a VIE is continuously performed.

In most cases, when the company is not the primary beneficiary and not required to consolidate the VIE, the proportionate consolidation method of accounting is used for joint ventures and partnerships in the construction industry, whereby the company recognizes its proportionate share of revenue, cost and profit in its Condensed Consolidated Statement of Earnings and uses the one-line equity method of accounting in the Condensed Consolidated Balance Sheet, which is a common application of ASC 810-10-45-14 in the construction industry. The equity and cost methods of accounting for the investments are also used, depending on the company's respective ownership interest, amount of influence over the VIE and the nature of services provided by the VIE. The net carrying value of the unconsolidated VIEs classified under Investments and goodwill and Other accrued liabilities in the Condensed Consolidated Balance Sheet was a net asset of \$150 million and \$22 million as of September 30, 2013 and December 31, 2012, respectively. Some of the company's VIEs have debt; however, such debt is typically non-recourse in nature. The company's maximum exposure to loss as a result of its investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding commitments. Future funding commitments as of September 30, 2013 for the unconsolidated VIEs were \$38 million.

In some cases, the company is required to consolidate certain VIEs. As of September 30, 2013, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were \$1.3 billion and \$765 million, respectively. As of December 31, 2012, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were \$1.0 billion and \$664 million, respectively. The assets of a VIE are restricted for use only for the particular VIE and are not available for general operations of the company.

None of the VIEs are individually material to the company's results of operations, financial position or cash flows except for the Fluor SKM joint venture, a consolidated joint venture formed for the execution of an iron ore project in Australia, which is material to the company's revenue for the 2012 periods. The company's results of operations included revenue related to the Fluor SKM joint venture of \$322 million and \$1.6 billion for the three and nine months ended September 30, 2013, respectively, and \$1.0 billion and \$2.5 billion for the three and nine months ended September 30, 2012, respectively.

(16) Effective January 1, 2013, the company implemented certain organizational changes that impacted the composition of its reportable segments. The company's operations and maintenance activities, previously included in the Global Services segment, have been integrated into the Industrial & Infrastructure segment as part of the new industrial services business line, which also includes project execution activities that

## Edgar Filing: FLUOR CORP - Form 10-Q

were previously reported in the manufacturing and life sciences business line. Additionally, the Global Services segment now includes activities associated with the company's efforts to grow its fabrication and construction capabilities and the operations of a new procurement entity, Acqyre, which was formed to provide strategic sourcing solutions to third parties. Segment operating information and total assets for 2012 have been recast to reflect these organizational changes.

Table of Contents

## FLUOR CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

Operating information by segment is as follows:

External Revenue (in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Oil & Gas	\$ 2,892.7	\$ 2,551.6	\$ 8,518.5	\$ 6,887.4
Industrial & Infrastructure	2,665.0	3,465.0	8,879.5	10,102.0
Government	675.2	790.1	2,101.0	2,511.5
Global Services	149.7	159.5	454.0	503.0
Power	301.6	169.9	1,107.2	550.5
Total external revenue	\$ 6,684.2	\$ 7,136.1	\$ 21,060.2	\$ 20,554.4

Intercompany revenue for the Global Services segment, excluded from the amounts shown above, was \$128.0 million and \$371.1 million for the three and nine months ended September 30, 2013, respectively, and \$116.0 million and \$341.8 million for the three and nine months ended September 30, 2012, respectively.

Segment Profit (Loss) (in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Oil & Gas	\$ 108.3	\$ 87.2	\$ 319.6	\$ 244.7
Industrial & Infrastructure	132.4	145.0	388.7	389.6
Government	37.8	22.9	92.7	98.1
Global Services	24.5	29.2	79.8	100.4
Power	7.6	(6.0)	11.4	(14.5)
Total segment profit	\$ 310.6	\$ 278.3	\$ 892.2	\$ 818.3

Power segment profit for the three and nine months ended September 30, 2013 included research and development expenses of \$12.7 million and \$41.1 million, respectively, and \$15.7 million and \$40.6 million for the three and nine months ended September 30, 2012, respectively, associated with the operations of NuScale.

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

Reconciliation of Total Segment Profit to	Three Months Ended September 30,	Nine Months Ended September 30,
---	-------------------------------------	------------------------------------



Edgar Filing: FLUOR CORP - Form 10-Q

Earnings Before Taxes (in millions)	2013		2012					
Total segment profit	\$	310.6	\$	278.3	\$	892.2	\$	818.3
Corporate general and administrative expense		(46.1)		(40.9)		(110.6)		(109.9)
Interest income (expense), net		(3.7)		(0.9)		(8.9)		2.8
Earnings attributable to noncontrolling interests		43.9		28.0		137.1		82.3
Earnings before taxes	\$	304.7	\$	264.5	\$	909.8	\$	793.5

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

UNAUDITED

Total assets by segment are as follows:

<b>Total Assets (in millions)</b>	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Oil & Gas	\$ 1,871.8	\$ 1,704.4
Industrial & Infrastructure	965.5	751.7
Government	545.8	827.2
Global Services	729.7	768.9
Power	205.1	120.6

The increase in total assets for the Oil & Gas segment was due to higher levels of working capital needed to support the segment's revenue growth. The increase in total assets for the Industrial & Infrastructure segment resulted primarily from the consolidation of a variable interest entity in the mining and metals business line during the first quarter of 2013, offset somewhat by a reduction in project working capital associated with the decrease in volume in the mining and metals business line. The decrease in total assets for the Government segment was primarily the result of reduced project working capital needs for LOGCAP IV. The increase in total assets for the Power segment was primarily due to an increase in working capital to support project execution activities.

Table of Contents

**FLUOR CORPORATION**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and notes and the company's December 31, 2012 Annual Report on Form 10-K. For purposes of reviewing this document, segment profit is calculated as revenue less cost of revenue and earnings attributable to noncontrolling interests excluding: corporate general and administrative 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, cash flow and liquidity, new awards and backlog levels and the implementation of strategic initiatives and organizational changes are forward-looking in nature. We wish to caution readers that forward-looking statements, including disclosures which use words such as the company believes, anticipates, expects, estimates and similar statements are subject to various risks and uncertainties which could cause actual results of operations to differ materially from expectations. Factors potentially contributing to such differences include, among others:

- Difficulties or delays incurred in the execution of contracts, or failure to accurately estimate the resources and time necessary for our contracts, resulting in cost overruns or liabilities, including those caused by the performance of our clients, subcontractors, suppliers and joint venture or teaming partners;
- Intense competition in the global engineering, procurement and construction industry, which can place downward pressure on our contract prices and profit margins;
- The cyclical nature of many of the markets the company serves, including our commodity-based business lines, and our vulnerability to downturns;
- Client cancellations of, or scope adjustments to, existing contracts, including our government contracts that may be terminated at any time and the related impacts on staffing levels and cost;
- Current economic conditions affecting our clients, partners, subcontractors and suppliers, which may result in decreased capital investment or expenditures, or a failure to make anticipated increased capital investment or expenditures, by the company's clients or other financial difficulties by our partners, subcontractors or suppliers;
- The company's failure to receive anticipated new contract awards and the related impact on revenue, earnings, staffing levels and cost;
- Client delays or defaults in making payments;
- A failure to obtain favorable results in existing or future litigation or dispute resolution proceedings;

## Edgar Filing: FLUOR CORP - Form 10-Q

- 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;
- Failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases, losses on projects;
- Failure of our suppliers, subcontractors or joint venture partners to provide supplies or services at the agreed-upon levels or times;
- Repercussions of events beyond our control, such as severe weather conditions, that may significantly affect operations, result in higher cost or subject the company to liability claims by our clients;
- The potential impact of certain tax matters including, but not limited to, those from foreign operations and the ongoing audits by tax authorities;
- Possible systems and information technology interruptions or the failure to adequately protect intellectual property rights;
- Liabilities arising from faulty services that could result in significant professional or product liability, warranty or other claims;
- The impact of anti-bribery and international trade laws and regulations;
- The availability of credit and restrictions imposed by credit facilities, both for the company and our clients, suppliers, subcontractors or other partners;
- Failure to maintain safe work sites;
- The impact of past and future environmental, health and safety regulations including climate change regulations;
- Possible limitations of bonding or letter of credit capacity;

Table of Contents

- The company's ability to secure appropriate insurance;
- The risks associated with acquisitions, dispositions or other investments;
- 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; and
- Restrictions on possible transactions imposed by our charter documents and Delaware law.

Any forward-looking statements that we may make are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those anticipated by us. Any forward-looking statements are subject to the risks, uncertainties and other factors that could cause actual results of operations, financial condition, cost reductions, acquisitions, dispositions, financing transactions, operations, expansion, consolidation and other events to differ materially from those expressed or implied in such forward-looking statements.

Due to known and unknown risks, the company's actual results may differ materially from its expectations or projections. 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. As a result, the reader is cautioned to recognize and consider the inherently uncertain nature of forward-looking statements and not to place undue reliance on them.

Additional information concerning these and other factors can be found in the company's press releases and 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 20, 2013. These filings are available publicly on the SEC's website at <http://www.sec.gov>, on the company's website at <http://investor.fluor.com> or upon request from the company's Investor Relations Department at (469) 398-7220. The company cannot control such risk factors and other uncertainties, and in many cases, cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements. These risks and uncertainties should be considered when evaluating the company and deciding whether to invest in its securities. 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**

### *Summary*

Effective January 1, 2013, the company implemented certain organizational changes that impacted the composition of its reportable segments. The company's operations and maintenance activities, previously included in the Global Services segment, have been integrated into the Industrial & Infrastructure segment as part of the new industrial services business line, which also includes project execution activities that were previously reported in the manufacturing and life sciences business line. Additionally, the Global Services segment now includes activities associated with the company's efforts to grow its fabrication and construction capabilities and the operations of a new procurement entity, Acqyre, which was formed to provide strategic sourcing solutions to third parties. Operating information by segment for 2012 has been recast to

reflect these organizational changes.

Consolidated revenue for the three months ended September 30, 2013 decreased six percent to \$6.7 billion from \$7.1 billion for the three months ended September 30, 2012. The revenue decrease was primarily attributable to a significant decline in volume for the mining and metals business line of the Industrial & Infrastructure segment, which outpaced a sizeable ramp-up in project execution activities for the Oil & Gas segment. Consolidated revenue for the nine months ended September 30, 2013 increased modestly to \$21.1 billion from \$20.6 billion for the first nine months of the prior year. The revenue increase in the current year period was principally due to substantial growth in the Oil & Gas and Power segments, partially offset by revenue declines in the other segments.

Net earnings attributable to Fluor Corporation were \$173 million, or \$1.05 per diluted share, and \$501 million, or \$3.05 per diluted share, for the three and nine months ended September 30, 2013, compared to net earnings attributable to Fluor Corporation of \$145 million, or \$0.86 per diluted share, and \$461 million, or \$2.72 per diluted share, for the corresponding periods of 2012. In the three month comparison period, improved performance in 2013 in the Oil & Gas, Government and Power segments offset lower earnings in the Industrial & Infrastructure and Global Services segments. For the first nine months of 2013, there were higher contributions in the Oil & Gas and Power segments compared to 2012.

Table of Contents

A highly competitive business environment has continued to put pressure on margins, although the Oil & Gas segment has continued to show signs of improvement, particularly for the upstream and petrochemicals markets. In some cases, margins may be impacted by a change in the mix of work performed. For example, a decline in the mix of construction-related work and a reduced content of customer-furnished materials (which typically generate lower margins than engineering work or projects without customer-furnished materials) would have a positive impact on margins, as was the case in the current year performance of the Industrial & Infrastructure segment.

In addition to the strengthening of the upstream and petrochemicals markets of the Oil & Gas segment, certain other market trends have emerged. First, the mining and metals business line of the Industrial & Infrastructure segment has continued to slow as major capital investment decisions by some mining customers have been deferred, after four years of growth. Second, the federal government has accelerated the closure of bases in the execution of the Logistics Civil Augmentation Program ( LOGCAP IV ) in Afghanistan which has reduced the volume of work for the Government segment.

The effective tax rate, based on the company's operating results for the three and nine months ended September 30, 2013 was 28.7 percent and 29.9 percent, respectively, compared to 34.8 percent and 31.7 percent for the corresponding periods of 2012. The effective tax rate for the three months ended September 30, 2013 was favorably impacted primarily by research tax credits, lower deferred U.S. taxes on foreign earnings and an increase in earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. The effective tax rate for the three months ended September 30, 2012 was unfavorably impacted by the payment of additional foreign taxes from the settlement of an audit and a reassessment of certain tax exposures. The effective tax rate for the nine months ended September 30, 2013 was favorably impacted by research tax credits and an increase in earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. The effective tax rate for the nine months ended September 30, 2012 was favorably impacted by the recognition of a deferred U.S. tax benefit of \$16 million primarily attributable to foreign earnings in South Africa.

Consolidated new awards were \$5.6 billion and \$19.3 billion for the three and nine months ended September 30, 2013 compared to new awards of \$6.3 billion and \$22.0 billion for the three and nine months ended September 30, 2012. The Oil & Gas and Government segments were the major contributors to the new award activity in the third quarter of 2013. The Oil & Gas and Industrial & Infrastructure segments were the principal drivers of the new award activity for the first nine months of 2013. Approximately 60 percent of consolidated new awards for the nine months ended September 30, 2013 were for projects located outside of the United States, compared to 73 percent for the first nine months of 2012.

Consolidated backlog as of September 30, 2013 decreased 11 percent to \$36.5 billion from \$40.8 billion as of September 30, 2012. The decline in backlog was primarily due to lower new award volume in the mining and metals business line, resulting from the deferral of major capital investment decisions by some mining customers. As of September 30, 2013, approximately 66 percent of consolidated backlog related to projects located outside the United States compared to 75 percent as of September 30, 2012. 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, revisions to project scope and cost, and deferrals, as appropriate.

***Oil & Gas***

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

Edgar Filing: FLUOR CORP - Form 10-Q

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 2,892.7	\$ 2,551.6	\$ 8,518.5	\$ 6,887.4
Segment profit	108.3	87.2	319.6	244.7

Revenue for the three and nine months ended September 30, 2013 increased 13 percent and 24 percent respectively, compared to the corresponding periods in 2012. The increase in revenue for the comparison periods was broad-based in that it was the result of higher project execution activities for various upstream and petrochemical projects in different regions. Major contributors to the increase included an oil sands facility in Canada, a petrochemicals project in the Middle East and a coal bed methane project in Australia. The revenue growth for the 2013 comparison periods was partially offset by reduced volume on certain projects at or near substantial completion, including two oil refineries in the United States and upstream services for two other Canadian oil sands projects.



Table of Contents

Segment profit for the three and nine months ended September 30, 2013 increased 24 percent and 31 percent, respectively, compared to the corresponding periods in 2012. The projects that contributed to the geographically broad-based revenue growth, discussed above, were generally the major contributors to the segment profit increases for the 2013 periods, although the coal bed methane project in Australia had lower segment profit in the most recent quarter compared to the third quarter of the prior year.

Segment profit margin for the three and nine months ended September 30, 2013 was 3.7 percent and 3.8 percent, respectively, compared to 3.4 percent and 3.6 percent, respectively, for the three and nine months ended September 30, 2012. Improved market conditions have favorably affected segment profit margin in the current year periods.

New awards for the three months ended September 30, 2013 were \$2.4 billion compared to \$2.0 billion for the corresponding period of 2012. Current quarter new awards included a petrochemicals complex in the United States and an upstream oil sands project in Canada. Backlog as of September 30, 2013 was \$18.7 billion compared to \$19.1 billion as of September 30, 2012. Although market conditions remain competitive, there is continued demand for new capacity in oil and gas production and petrochemicals. The segment remains well positioned for new project activity in these markets.

Total assets in the segment increased to \$1.9 billion as of September 30, 2013 from \$1.7 billion as of December 31, 2012 due to higher levels of working capital needed to support the segment's revenue growth.

***Industrial & Infrastructure***

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 2,665.0	\$ 3,465.0	\$ 8,879.5	\$ 10,102.0
Segment profit	132.4	145.0	388.7	389.6

Revenue for the three and nine months ended September 30, 2013 decreased 23 percent and 12 percent, respectively, compared to the corresponding periods of 2012, primarily as a result of decreased volume in the mining and metals business line.

Segment profit for the three months ended September 30, 2013 decreased nine percent compared to the three months ended September 30, 2012, primarily due to lower contributions associated with the decline in volume for the mining and metals business line. The improved performance of the infrastructure and industrial services business lines offset some of the lower contributions in the mining and metals business line. Segment profit for the nine months ended September 30, 2013 decreased slightly compared to the corresponding period in the prior year. Improved contributions in the infrastructure and industrial services business lines offset the decline in segment profit for the mining and metals business line.

Segment profit margin for the three and nine months ended September 30, 2013 was 5.0 percent and 4.4 percent, respectively, compared to 4.2 percent and 3.9 percent, respectively, for the same periods in the prior year. The higher segment profit in the third quarter of 2013 when compared to the third quarter of 2012 was primarily because, in the prior year period, the mining and metals business line had a significantly higher content of customer-furnished materials, which are accounted for as pass-through costs. The year to date improvement in segment profit margin was primarily attributable to increased contributions in the infrastructure business line due to the achievement of certain progress milestones for two domestic transportation projects.

New awards for the three months ended September 30, 2013 were \$472 million compared to \$1.8 billion for the 2012 comparison period. New awards for the current quarter reflect the market downturn in the mining and metals business line. Backlog declined to \$13.8 billion as of September 30, 2013 compared to \$18.0 billion as of September 30, 2012 due to lower new award volume in the mining and metals business line, resulting from the deferral of major capital investment decisions by some mining customers. The timing of when capital investment by these mining customers could resume is uncertain, and it is possible that the weakened mining market conditions could be prolonged.

Total assets in the segment increased to \$1.0 billion as of September 30, 2013 from \$752 million as of December 31, 2012 primarily from the consolidation of a variable interest entity in the mining and metals business line during the first quarter of 2013, offset somewhat by a reduction in project working capital associated with the decrease in volume in the mining and metals business line.

Table of Contents**Government**

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 675.2	\$ 790.1	\$ 2,101.0	\$ 2,511.5
Segment profit	37.8	22.9	92.7	98.1

Revenue for the three and nine months ended September 30, 2013 decreased 15 percent and 16 percent, respectively, compared to the same periods in the prior year, primarily due to a reduction in project execution activities for the Logistics Civil Augmentation Program ( LOGCAP IV ) for the United States Army in Afghanistan. The majority of the rest of the revenue decline for both comparative periods was due to reduced project execution activities at the Savannah River Site Management and Operating Project (the Savannah River Project ) in South Carolina, which was primarily the result of the winding down of the American Recovery and Reinvestment Act ( ARRA ) portion of the work at the site. The federal government's March 1, 2013 budget sequestration, which was lifted in June 2013, contributed to the revenue decline for the non-ARRA work at the Savannah River Project during the nine months ended September 30, 2013 when compared to the comparable period of the prior year.

Segment profit for the three months ended September 30, 2013 increased 65 percent compared to the corresponding period in the prior year, primarily due to an agreement with the client at the end of 2012 to change the LOGCAP IV award fee to a fixed fee, which more than offset reduced contributions by the project in the current quarter resulting from reduced volume. Segment profit for the nine months ended September 30, 2013 decreased six percent compared to the same period in the prior year, principally as the result of reduced contributions associated with the decline in project execution activities on LOGCAP IV task orders. The first nine months of 2013 benefitted from changing the LOGCAP IV award fee to a fixed fee at the end of 2012 and the positive impact on segment profit from negotiations in the first quarter of 2013 related to the close-out of prior year indirect rates. The first nine months of 2013 included a \$17 million charge related to an adverse judgment associated with the company's final claim on an embassy project, while segment profit in the corresponding period of the prior year was reduced for a \$13 million charge associated with a claim on another embassy project as the result of an adverse judgment in the first quarter of 2012.

Segment profit margin for the three and nine months ended September 30, 2013 was 5.6 percent and 4.4 percent, respectively, compared to 2.9 percent and 3.9 percent for the three and nine months ended September 30, 2012, primarily as the result of the factors affecting revenue and segment profit noted above.

New awards for the three months ended September 30, 2013 were \$1.9 billion compared to \$2.0 billion for the same period in the prior year. Current quarter new awards included the annual funding of the multi-year Department of Energy contracts for the Savannah River project and the gaseous diffusion plant project in Portsmouth, Ohio. Backlog was \$1.8 billion as of September 30, 2013 compared to \$1.6 billion as of September 30, 2012.

Total assets in the Government segment decreased to \$546 million as of September 30, 2013 from \$827 million as of December 31, 2012, primarily due to reduced project working capital needs for LOGCAP IV.

*Global Services*

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 149.7	\$ 159.5	\$ 454.0	\$ 503.0
Segment profit	24.5	29.2	79.8	100.4

Revenue decreased six percent for the three months ended September 30, 2013 compared to the same period in 2012, primarily due to reduced volume in the equipment business line in Mexico. This revenue decline was partially offset by an increase in

Table of Contents

revenue from the equipment business line in Africa, primarily as the result of the acquisition of an equipment company in the third quarter of 2012. Revenue decreased 10 percent for the nine months ended September 30, 2013 compared to the corresponding period in 2012, principally because the prior year period included a one-time sale of equipment in Peru during the first quarter. While the equipment business line experienced improved volume in Africa and Chile during the first nine months of 2013 when compared to the comparable period in the prior year, it was more than offset by revenue declines in Mexico, the Middle East and the United States.

Segment profit for the three months ended September 30, 2013 decreased 16 percent compared to the three months ended September 30, 2012, principally as the result of the reduced volume in the equipment business line's operations in Mexico. Segment profit decreased 20 percent for the first nine months of 2013 compared to the first nine months of 2012, primarily due to the equipment business line's reduced contributions from operations in Mexico and the United States.

Segment profit margin was 16.4 percent in the current quarter compared to 18.3 percent for the same quarter in 2012, primarily due to start up related costs for the new fabrication business line and certain costs associated with the supply chain business line's efforts to provide strategic sourcing solutions to third parties. Segment profit margin for the nine months ended September 30, 2013 was 17.6 percent compared to 19.9 percent for the same period in 2012, primarily as the result of the higher costs in the fabrication and supply chain business lines noted in the preceding sentence, along with lower segment profit margin from the segment's equipment operations in Mexico.

The equipment, temporary staffing, supply chain solutions and construction business lines do not report backlog or new awards.

Total assets in the Global Services segment were \$730 million as of September 30, 2013 compared to \$769 million as of December 31, 2012.

**Power**

Revenue and segment profit (loss) for the Power segment are summarized as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 301.6	\$ 169.9	\$ 1,107.2	\$ 550.5
Segment profit	7.6	(6.0)	11.4	(14.5)

Revenue for the three and nine months ended September 30, 2013 increased substantially compared to the three and nine months ended September 30, 2012, primarily due to construction progress on a solar power project in the western United States and a gas-fired power plant project in Texas.

## Edgar Filing: FLUOR CORP - Form 10-Q

Segment profit and segment profit margin for the three and nine months ended September 30, 2013 increased significantly compared to the three and nine months ended September 30, 2012, primarily due to increased contributions from the projects noted above. Segment profit and segment profit margin for the three and nine months ended September 30, 2013 and 2012 were adversely impacted by expenses associated with the company's continued investment in NuScale, a small modular nuclear reactor technology company, in which the company acquired a majority interest in late 2011. The NuScale expenses for the three months ended September 30, 2013 and 2012 were \$13 million and \$16 million, respectively. The NuScale expenses were \$41 million for both the nine months ended September 30, 2013 and 2012. The operations of NuScale are primarily for research and development activities. Although part of the Power segment, these activities could provide future benefits to both commercial and government clients.

The Power segment continues to be impacted by relatively weak demand for new power generation. Market segments that are best suited to yield near term opportunities include gas-fired combined cycle generation, renewable energy, regional transmission feasibility studies and additions, and air emissions compliance projects for existing coal-fired power plants. New awards for the three months ended September 30, 2013 were \$846 million compared to \$581 million in the third quarter of 2012. Current quarter awards included a natural gas-fueled power plant project in Virginia. Backlog was \$2.1 billion as of both September 30, 2013 and 2012.

Table of Contents

Total assets in the Power segment were \$205 million as of September 30, 2013 and \$121 million as of December 31, 2012. The increase was attributable to higher levels of project working capital needed to support the increase in project execution activities of the segment.

*Other*

Corporate general and administrative expense for the three and nine months ended September 30, 2013 was \$46.1 million and \$110.6 million compared to \$40.9 million and \$109.9 million for the three and nine months ended September 30, 2012. The increase for the current quarter was primarily the result of higher stock price driven compensation expense.

Net interest expense was \$3.7 million and \$8.9 million during the three and nine month periods ended September 30, 2013 compared to net interest expense of \$0.9 million and net interest income of \$2.8 million during the corresponding periods of 2012. The company earned more interest income during the three and nine month periods ended September 30, 2012, primarily due to larger cash balances in certain international locations that earn higher yields.

Income tax expense for the three and nine months ended September 30, 2013 and 2012 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**

See Note 13 of the Notes to Condensed Consolidated Financial Statements.

**LIQUIDITY AND FINANCIAL CONDITION**

Liquidity is provided by available cash and cash equivalents and marketable securities, cash generated from operations, credit facilities and access to financial markets. The company has committed and uncommitted lines of credit totaling \$4.6 billion, which may be used for revolving loans, letters of credit and/or general purposes. The company believes that for at least the next 12 months, cash generated from operations, along with its unused credit capacity of \$3.6 billion and substantial cash position, is sufficient to support operating requirements. However, the company regularly reviews its sources and uses of liquidity and may pursue opportunities to increase its liquidity positions. The company's conservative financial strategy and consistent performance have earned it strong credit ratings, resulting in continued access to the capital

markets. As of September 30, 2013, the company was in compliance with all its covenants related to its debt agreements. The company's total debt to total capitalization ( debt-to-capital ) ratio as of September 30, 2013 was 12.1 percent compared to 13.9 percent as of December 31, 2012.

### *Cash Flows*

Cash and cash equivalents were \$2.5 billion as of September 30, 2013 compared to \$2.2 billion as of December 31, 2012. Cash and cash equivalents combined with current and noncurrent marketable securities were \$3.0 billion as of September 30, 2013 and \$2.6 billion as of December 31, 2012. Cash and cash equivalents are held in numerous accounts throughout the world to fund the company's global project execution activities. As of both September 30, 2013 and December 31, 2012, non-U.S. cash and cash equivalents were \$1.3 billion. Non-U.S. cash and cash equivalents exclude deposits of U.S. legal entities that are either swept into overnight, offshore accounts or invested in short-term, offshore time deposits, for which there is unrestricted access. The company did not consider any cash to be permanently reinvested overseas as of September 30, 2013 and December 31, 2012 and, as a result, has accrued the U.S. deferred tax liability on foreign earnings, as appropriate.

### *Operating Activities*

Cash flows from operating activities result primarily from earnings sources and are impacted by changes in operating assets and liabilities which consist primarily of working capital balances. Working capital levels vary from period to period and are primarily affected by the company's volume of work. These levels are also impacted by the mix, stage of completion and commercial terms of engineering and construction projects, as well as the company's execution of its projects within budget. Working capital requirements also vary by project. For example, accounts receivable and contract work in progress relate to clients in various industries and locations throughout the world. Most contracts require payments as the projects progress. The company evaluates the counterparty credit risk of third parties as part of its project risk review process and in determining the



Table of Contents

appropriate level of reserves. The company maintains adequate reserves for potential credit losses and generally such losses have been minimal and within management's estimates. In the current economic environment, it is more likely that such credit losses could occur and impact working capital requirements. Additionally, certain projects receive advance payments from clients. A normal trend for these projects is to have higher cash balances during the initial phases of execution which then level out toward the end of the construction phase. As a result, the company's cash position is reduced as customer advances are worked off, unless they are replaced by advances on other projects. The company maintains cash reserves and borrowing facilities to provide additional working capital in the event that a project's net operating cash outflows exceed its available cash balances.

During the nine months ended September 30, 2013, working capital increased primarily due to an increase in contract work in progress partially offset by a decrease in accounts receivable. Significant drivers of these fluctuations were:

- Increases in contract work in progress in the Oil & Gas and Industrial & Infrastructure segments that were partially offset by decreases in the Government segment. These fluctuations primarily resulted from normal project execution activities. A significant contributor to the increase in contract work in progress in the Oil & Gas segment was the Australian coal bed methane gas project. A significant contributor to the decrease in contract work in progress in the Government segment was the LOGCAP IV project.
- Decreases in accounts receivable in the Oil & Gas segment, which resulted principally from normal billing and collection activities associated with numerous projects.

During the nine months ended September 30, 2012, working capital increased primarily due to an increase in contract work in progress in the Oil & Gas and Industrial & Infrastructure segments and a decrease in advance billings in the Oil & Gas segment, partially offset by an increase in accounts payable in the Oil & Gas segment. The higher contract work in progress balance resulted from normal project execution activities and is expected to be billed and collected from clients. The decrease in advance billings was also the result of normal project execution activities for several projects. The higher accounts payable balance was the result of normal invoicing and payment activities associated with numerous projects.

Cash provided by operating activities was \$713 million for the nine months ended September 30, 2013 compared to \$510 million for the nine months ended September 30, 2012. The period-over-period improvement in cash flows from operating activities was primarily attributable to a relatively smaller net increase in working capital when comparing the two periods, with the largest contributor being a decrease in contract work in progress for the LOGCAP IV project in the Government segment, and an overall increase in earnings sources.

During the nine months ended September 30, 2013 and 2012, the company had net cash outlays of \$11 million and \$166 million, respectively, to fund the project execution activities for the now completed Greater Gabbard Project.

The company contributed approximately \$11 million into its defined benefit pension plans during the nine months ended September 30, 2013 compared to \$7 million during the corresponding period of the prior year. The company expects to fund approximately \$20 million to \$40 million during 2013, which is expected to be in excess of the minimum funding required.

*Investing Activities*

Cash utilized by investing activities amounted to \$144 million and \$251 million for the nine months ended September 30, 2013 and 2012, respectively. The primary investing activities included purchases, sales and maturities of marketable securities, capital expenditures, disposals of property, plant and equipment, business acquisitions and investments in partnerships and joint ventures. Investing activities during the first nine months of 2013 also included the consolidation of a VIE that had previously been accounted for using the proportionate consolidation method in which cash for this VIE was not required to be consolidated.

The company holds cash in bank deposits and marketable securities which are governed by the company's investment policy. This policy focuses on, in order of priority, the preservation of capital, maintenance of liquidity and maximization of yield. These investments include money market funds which invest in U.S. Government-related securities, bank deposits placed with highly-rated financial institutions, repurchase agreements that are fully collateralized by U.S. Government-related securities, high-grade commercial paper and high quality short-term and medium-term fixed income securities. Proceeds from sales and maturities of marketable securities exceeded purchases of such securities by \$12 million during the nine months ended September 30, 2013. Purchases of marketable securities exceeded proceeds from sales and maturities of such securities by \$89 million during the nine months ended September 30, 2012. The company held current and noncurrent marketable securities of \$440 million and \$455 million as of September 30, 2013 and December 31, 2012, respectively.

Table of Contents

Capital expenditures of \$181 million and \$189 million for the nine months ended September 30, 2013 and 2012, respectively, primarily related to construction equipment associated with equipment operations in the Global Services segment as well as investments in information technology. Proceeds from the disposal of property, plant and equipment of \$34 million and \$66 million during the nine months ended September 30, 2013 and 2012, respectively, primarily related to the disposal of construction equipment associated with the equipment operations in the Global Services segment.

During the first nine months of 2013, the company paid \$8 million to acquire an Australian-based company that specializes in fabrication and pressure welding. The company continues to make investments in partnerships and joint ventures primarily for the execution of single contracts or projects. Investments in unconsolidated partnerships and joint ventures were \$38 million and \$12 million during the nine months ended September 30, 2013 and 2012, respectively.

*Financing Activities*

Cash utilized by financing activities during the nine months ended September 30, 2013 and 2012 of \$136 million and \$289 million, respectively, included company stock repurchases, company dividend payments to stockholders, repayments of debt and distributions paid to holders of noncontrolling interests.

Cash flows from financing activities included the repurchase and cancellation of 3,223,949 shares of company's common stock for \$164 million during the first nine months of 2012 under its stock repurchase program.

Quarterly cash dividends are typically paid during the month following the quarter in which they are declared. However, dividends declared in the fourth quarter of 2012 were paid in December 2012. Quarterly cash dividends of \$0.16 per share were declared in the third quarter of 2013. The payment and level of future cash dividends is subject to the discretion of the company's Board of Directors.

In September 2011, the company issued \$500 million of 3.375% Senior Notes (the 2011 Notes) due September 15, 2021 and received proceeds of \$492 million, net of underwriting discounts and debt issuance costs. Interest on the 2011 Notes is payable semi-annually on March 15 and September 15 of each year, and began on March 15, 2012. The company may, at any time, redeem the 2011 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture. Additionally, if a change of control triggering event occurs, as defined by the terms of the indenture, the company will be required to offer to purchase the 2011 Notes at a purchase price equal to 101 percent of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. The company is generally not limited under the indenture governing the 2011 Notes in its ability to incur additional indebtedness provided the company is in compliance with certain restrictive covenants, including restrictions on liens and restrictions on sale and leaseback transactions. These covenants are not expected to impact the company's liquidity or capital resources.

In February 2004, the company issued \$330 million of 1.5% Convertible Senior Notes (the 2004 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 2004 Notes in cash. The 2004 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 was satisfied during the fourth quarter of 2012 and third quarter of 2013 and the 2004 Notes were therefore classified as short-term debt as of December 31, 2012 and September 30, 2013, respectively. During the nine

## Edgar Filing: FLUOR CORP - Form 10-Q

months ended September 30, 2013, holders converted less than \$0.1 million of the 2004 Notes in exchange for the principal balance owed in cash plus 1,562 shares of the company's common stock. During the nine months ended September 30, 2012, holders converted \$0.9 million of the 2004 Notes in exchange for the principal balance owed in cash plus 17,352 shares of the company's common stock. The company does not know the timing or principal amount of the remaining 2004 Notes that may be presented for conversion by the holders in the future. Additionally, the 2004 Notes are currently redeemable at the option of the company, in whole or in part, at 100 percent of the principal amount plus accrued and unpaid interest. 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.

In the first quarter of 2013, the company redeemed its 5.625% Municipal Bonds for \$18 million, or 100% of their principal amount, and also paid \$9 million on the remaining balances of various notes payable that were assumed in connection with the 2012 acquisition of an equipment company.

Table of Contents

Distributions paid to holders of noncontrolling interests represent cash outflows to partners of consolidated partnerships or joint ventures created primarily for the execution of single contracts or projects. Distributions paid were \$80 million and \$62 million during the nine months ended September 30, 2013 and 2012, respectively. Distributions in both years primarily related to an iron ore joint venture project in Australia. See Note 14 to the annual report on Form 10-K for further discussion of this project.

*Effect of Exchange Rate Changes on Cash*

Unrealized translation gains and losses resulting from changes in functional currency exchange rates are reflected in the cumulative translation component of accumulated other comprehensive loss. During the nine months ended September 30, 2013, most major foreign currencies weakened against the U.S. dollar. As a result, the company had unrealized translation losses of \$50 million in 2013 related to cash held by foreign subsidiaries. During the nine months ended September 30, 2012, most major foreign currencies strengthened against the U.S. dollar resulting in unrealized translation gains of \$20 million in 2012 related to cash held by foreign subsidiaries. The cash held in foreign currencies will primarily be used for project-related expenditures in those currencies, and therefore the company's exposure to realized exchange gains and losses is generally mitigated.

*Off-Balance Sheet Arrangements*

*Guarantees and Commitments*

As of September 30, 2013, the company had a combination of committed and uncommitted lines of credit that totaled \$4.6 billion. These lines may be used for revolving loans, letters of credit and/or general purposes. The committed lines of credit consist of a \$1.8 billion Revolving Loan and Letter of Credit Facility ( "Credit Facility" ) that matures in 2017 and a \$1.2 billion Revolving Performance Letter of Credit Facility that matures in 2015. Both of these facilities may be increased up to an additional \$500 million subject to certain conditions, and contain customary financial and restrictive covenants, including a maximum ratio of consolidated debt to tangible net worth of one-to-one and a cap on the aggregate amount of debt of \$600 million for the company's subsidiaries. Borrowings on the Credit Facility bear interest at rates based on the London Interbank Offered Rate ( "LIBOR" ) or an alternative base rate, plus an applicable borrowing margin.

Letters of credit are provided in the ordinary course of business primarily to indemnify the company's clients if the company fails to perform its obligations under its contracts. As of September 30, 2013, letters of credit and borrowings under credit facilities totaling \$943 million were outstanding under these committed and uncommitted lines of credit. As an alternative to letters of credit, surety bonds are used as a form of credit enhancement.

In the ordinary course of business, the company enters into various agreements providing performance assurances and guarantees to clients on behalf of certain consolidated and 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 performance 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 amount of future payments that the company could be required to make under outstanding performance guarantees, which represents the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts, was estimated to be \$8.6 billion as of September 30, 2013. Amounts that may be required to be paid in excess of estimated cost to complete

## Edgar Filing: FLUOR CORP - Form 10-Q

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, the performance guarantee 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. The company assessed its performance guarantee obligation as of September 30, 2013 and December 31, 2012 in accordance with ASC 460, Guarantees and the carrying value of the liability was not material.

Financial guarantees, made in the ordinary course of business 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. These arrangements may require the borrower to pledge collateral to support the fulfillment of the borrower's obligation.

Table of Contents

*Variable Interest Entities*

In the normal course of business, the company forms partnerships or joint ventures primarily for the execution of single contracts or projects. The company evaluates each partnership and joint venture to determine whether the entity is a VIE. If the entity is determined to be a VIE, the company assesses whether it is the primary beneficiary and needs to consolidate the entity.

For further discussion of the company's VIEs, see Note 15 to the Condensed Consolidated Financial Statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes to market risk in the first nine months of 2013. Accordingly, the disclosures provided in the Annual Report on Form 10-K for the year ended December 31, 2012 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 during 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 September 30,	
	2013	2012
Backlog beginning of period	\$ 37,048.9	\$ 43,001.5
New awards	5,605.7	6,317.2
Adjustments and cancellations, net	361.1	(1,495.9)
Work performed	(6,534.6)	(6,976.6)
Backlog end of period	\$ 36,481.1	\$ 40,846.2

(in millions)	Nine Months Ended September 30,	
	2013	2012
Backlog beginning of period	\$ 38,199.4	\$ 39,483.7
New awards	19,311.4	22,013.2
Adjustments and cancellations, net	(423.5)	(596.4)
Work performed	(20,606.2)	(20,054.3)
Backlog end of period	\$ 36,481.1	\$ 40,846.2



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. Management periodically assesses our liabilities and contingencies in connection with these matters based upon the latest information available. We disclose material pending legal proceedings pursuant to SEC rules and other pending matters as we may determine to be appropriate.

For information on matters in dispute, see Note 13 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on February 20, 2013, and Note 13 to the Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q.

**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, 2012.

**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, 2013 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, 2013 - July 31, 2013	238	\$ 59.02		11,840,816

Edgar Filing: FLUOR CORP - Form 10-Q

August 1, 2013	August 31, 2013	2,077	66.53	11,840,816
September 1, 2013	September 30, 2013			11,840,816
Total		2,315	\$ 65.76	

---

(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 November 3, 2011, the company announced that the Board of Directors had approved the repurchase of up to 12,000,000 shares of our common stock. Following this approval, we repurchased a total of 8,159,184 shares as of December 31, 2012. As a result, as of December 31, 2012 we had 3,840,816 shares remaining available for repurchase. On February 6, 2013, the Board of Directors approved an increase of 8,000,000 shares to the share repurchase program, bringing the total number of shares available for repurchase to 11,840,816 shares. This repurchase program is ongoing and does not have an expiration date.

Table of Contents

**Item 6. Exhibits**

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
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 8, 2012).
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 May 8, 2012).
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).
4.3	Senior Debt Securities Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of September 8, 2011 (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K filed on September 8, 2011).
4.4	First Supplemental Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of September 13, 2011 (incorporated by reference to Exhibit 4.4 to the registrant's Current Report on Form 8-K filed on September 13, 2011).
4.5	Second Supplemental Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of June 22, 2012 (incorporated by reference to Exhibit 4.2 to the registrant's Form S-3ASR filed on June 22, 2012).
10.1	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).
10.2	Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors, as amended and restated effective January 1, 2010 (incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q filed on May 10, 2010).
10.3	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).
10.4	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).
10.5	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).
10.6	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).
10.7	Executive Severance Plan (incorporated by reference to Exhibit 10.7 to the registrant's Annual Report on Form 10-K filed on February 22, 2012).
10.8	Fluor Corporation 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).

## Edgar Filing: FLUOR CORP - Form 10-Q

- 10.9 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).
- 10.10 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).
- 10.11 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).
- 10.12 Summary of Fluor Corporation Non-Management Director Compensation (incorporated by reference to Exhibit 10.12 to the registrant's Quarterly Report on Form 10-Q filed on August 2, 2012).

## Edgar Filing: FLUOR CORP - Form 10-Q

### Table of Contents

- 10.13 Fluor Corporation 409A Deferred Directors Fees Program, as amended and restated effective as of January 1, 2013 (incorporated by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K filed on February 20, 2013).
- 10.14 Fluor 409A Executive Deferred Compensation Program, as amended and restated effective January 1, 2012 (incorporated by reference to Exhibit 10.14 to the registrant's Annual Report on Form 10-K filed on February 22, 2012).
- 10.15 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).
- 10.16 Fluor Corporation Amended and Restated 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 3, 2013).
- 10.17 Form of Indemnification Agreement entered into between the registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K filed on February 25, 2009).
- 10.18 Retention Award granted to David T. Seaton on February 7, 2008 (incorporated by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K filed on February 25, 2009).
- 10.19 Form of Stock Option Agreement under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.28 to the registrant's Quarterly Report on Form 10-Q filed on May 10, 2010).
- 10.20 Form of Restricted Stock Unit Agreement under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.29 to the registrant's Quarterly Report on Form 10-Q filed on May 10, 2010).
- 10.21 Form of Non-U.S. Stock Growth Incentive Award Agreement under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.30 to the registrant's Quarterly Report on Form 10-Q filed on May 10, 2010).
- 10.22 Form of Restricted Unit Award Agreement under the Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.28 to the registrant's Quarterly Report on Form 10-Q filed on August 4, 2011).
- 10.23 Form of Restricted Stock Agreement under the Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.29 to the registrant's Quarterly Report on Form 10-Q filed on August 4, 2011).
- 10.24 Form of Change in Control Agreement entered into between the registrant and each of its executive officers (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 29, 2010).
- 10.25 Revolving Loan and Letter of Credit Facility Agreement dated as of November 9, 2012, among Fluor Corporation, the Lenders thereunder, BNP Paribas, as Administrative Agent and an Issuing Lender, Bank of America, N.A., as Syndication Agent, and Citibank, N.A. and The Bank of Tokyo - Mitsubishi UFJ, Ltd., as Co-Documentation Agents (including schedules and exhibits thereto) (incorporated by reference to Exhibit 10.29 to the registrant's Annual Report on Form 10-K filed on February 20, 2013).
- 10.26 Revolving Performance Letter of Credit Facility Agreement dated as of December 14, 2010, among Fluor Corporation, the Lenders thereunder, BNP Paribas, as Administrative Agent and an Issuing Lender, Bank of America, N.A., as Co-Syndication Agent and an Issuing Lender, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Bank of Nova Scotia, as Co-Syndication Agents and Banco Santander, S.A., New York Branch and Crédit Agricole Corporate and Investment Bank, as Co-Documentation Agents (incorporated by reference to Exhibit 10.33 to the registrant's Annual Report on Form 10-K filed on February 23, 2011).
- 10.27 Amendment No. 1 dated as of November 9, 2012 to that certain Revolving Performance Letter of Credit Facility Agreement dated as of December 14, 2010, among Fluor Corporation, the Lenders thereunder, and BNP Paribas, as Administrative Agent and an Issuing Lender (incorporated by reference to Exhibit 10.31 to the registrant's Annual Report on Form 10-K filed on February 20, 2013).
- 10.28 Retention Award granted to D. Michael Steuert on August 4, 2010 (incorporated by reference to Exhibit 10.34 to the registrant's Annual Report on Form 10-K filed on February 23, 2011).

Edgar Filing: FLUOR CORP - Form 10-Q

- 10.29 Form of Value Driver Incentive Award Agreement (payable in shares) under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.33 to the registrant's Quarterly Report on Form 10-Q filed on May 3, 2012).

## Edgar Filing: FLUOR CORP - Form 10-Q

### Table of Contents

10.30	Form of Option Agreement (with international grant language) under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.38 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2011).
10.31	Form of Restricted Stock Unit Agreement (with international grant language) under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.39 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2011).
10.32	Form of Non-U.S. Stock Growth Incentive Award Agreement under the Fluor Corporation 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.40 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2011).
10.33	Offer of Employment Letter dated January 9, 2009 from Fluor Corporation to Bruce A. Stanski (incorporated by reference to Exhibit 10.39 to the registrant's Annual Report on Form 10-K filed on February 22, 2012).
10.34	Offer of Employment Letter from Fluor Corporation to Biggs C. Porter (incorporated by reference to Exhibit 10.38 to the registrant's Quarterly Report on Form 10-Q filed on May 3, 2012).
10.35	Consulting Agreement between Fluor Corporation and D. Michael Steuert, dated May 11, 2012 (incorporated by reference to Exhibit 10.39 to the registrant's Quarterly Report on Form 10-Q filed on August 2, 2012).
10.36	Retention Award granted to Peter Oosterveer on December 11, 2009 (incorporated by reference to Exhibit 10.36 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2011).
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.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

---

\* New exhibit filed with this report.

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Earnings for the three and nine months ended September 30, 2013 and 2012, (ii) the Condensed Consolidated Balance Sheet as of September 30, 2013 and December 31, 2012, and (iii) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2013 and 2012.





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: October 31, 2013

/s/ Biggs C. Porter  
Biggs C. Porter  
Senior Vice President and Chief Financial Officer

Date: October 31, 2013

/s/ Gary G. Smalley  
Gary G. Smalley  
Senior Vice President and Controller  
(Chief Accounting Officer)