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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-16129

**FLUOR CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

33-0927079

(State or other jurisdiction of  
incorporation or organization)

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

6700 Las Colinas Boulevard, Irving, Texas 75039

(Address of principal executive offices)

(469) 398-7000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

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

Common Stock, \$0.01 par value — 87,554,335 shares outstanding on April 30, 2006.

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FLUOR CORPORATION

FORM 10-Q

March 31, 2006

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**PART I: FINANCIAL INFORMATION**  
**Item 1. Financial Statements**  
**FLUOR CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF EARNINGS**  
Three Months Ended March 31, 2006 and 2005  
**UNAUDITED**

\$ in thousands, except per share amounts	2006	2005
<b>REVENUES</b>	<b>\$3,624,876</b>	<b>\$2,859,767</b>
<b>COSTS AND EXPENSES</b>		
Cost of revenues	3,440,499	2,741,199
Corporate administrative and general expense	41,771	38,109
Interest expense	4,828	4,819
Interest income	(5,013)	(4,949)
<b>Total Costs and Expenses</b>	<b>3,482,085</b>	<b>2,779,178</b>
<b>EARNINGS BEFORE TAXES</b>	<b>142,791</b>	<b>80,589</b>
<b>INCOME TAX EXPENSE</b>	<b>53,937</b>	<b>33,196</b>
<b>NET EARNINGS</b>	<b>\$ 88,854</b>	<b>\$ 47,393</b>
<b>EARNINGS PER SHARE</b>		
BASIC	\$ 1.03	\$ 0.57
DILUTED	\$ 1.00	\$ 0.56
<b>SHARES USED TO CALCULATE EARNINGS PER SHARE</b>		
BASIC	85,912	83,698
DILUTED	88,907	84,934
<b>DIVIDENDS DECLARED PER SHARE</b>	<b>\$ 0.20</b>	<b>\$ 0.16</b>

See Accompanying Notes

**FLUOR CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
March 31, 2006 and December 31, 2005  
**UNAUDITED**

\$ in thousands, except share amounts	March 31, 2006	December 31, 2005 *
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 653,984	\$ 789,016
Accounts and notes receivable	871,993	850,203
Contract work in progress	1,405,496	1,110,650
Deferred taxes	163,747	151,215
Other current assets	288,245	207,138
Total current assets	3,383,465	3,108,222
Property, plant and equipment (net of accumulated depreciation of \$485,048 and \$466,055 respectively)	600,409	581,538
Investments and goodwill	208,317	193,021
Deferred taxes	81,728	75,797
Pension assets	235,212	238,494
Other	345,467	377,373
	<u>\$4,854,598</u>	<u>\$4,574,445</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Trade accounts payable	\$1,130,356	\$1,003,886
Commercial paper	45,087	—
Convertible Senior Notes	330,000	330,000
Advance billings on contracts	465,343	475,498
Accrued salaries, wages and benefits	355,954	344,315
Other accrued liabilities	188,802	185,636
Total current liabilities	2,515,542	2,339,335
Long-term debt due after one year	34,670	34,465
Non-recourse project finance debt	71,647	57,558
Noncurrent liabilities	517,668	512,529
Contingencies and commitments		
Shareholders' equity		
Capital stock		
Preferred — authorized 20,000,000 shares (\$0.01 par value); none issued	—	—
Common — authorized 150,000,000 shares (\$0.01 par value); issued and outstanding — 87,513,223 and 87,088,202 shares, respectively	875	871
Additional capital	604,852	629,901
Unamortized executive stock plan expense	—	(39,777)
Accumulated other comprehensive income	7,509	9,103
Retained earnings	1,101,835	1,030,460
Total shareholders' equity	1,715,071	1,630,558
	<u>\$4,854,598</u>	<u>\$4,574,445</u>

\* Amounts at December 31, 2005 have been derived from audited financial statements.

See Accompanying Notes

**FLUOR CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
Three Months Ended March 31, 2006 and 2005  
**UNAUDITED**

\$ in thousands	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 88,854	\$ 47,393
Adjustments to reconcile net earnings to cash provided (utilized) by operating activities:		
Depreciation of fixed assets	27,754	23,176
Amortization of intangibles	369	540
Restricted stock and stock option amortization	8,320	4,765
Taxes paid on vested restricted stock	(12,768)	(8,143)
Deferred taxes	(14,325)	(2,886)
Stock option tax benefit	—	8,134
Retirement plan accrual, net of contributions	2,068	4,123
Unbilled fees receivable	(5,792)	(18,844)
Changes in operating assets and liabilities	(235,731)	(13,820)
Equity in earnings of investees	(4,254)	(2,226)
Other, net	(12,794)	(5,277)
Cash provided (utilized) by operating activities	(158,299)	36,935
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(56,145)	(33,244)
Proceeds from disposal of property, plant and equipment	6,772	5,403
Other, net	(1,776)	(3,677)
Cash utilized by investing activities	(51,149)	(31,518)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term borrowings	45,087	(10,035)
Net proceeds from issuance of common stock	—	41,820
Proceeds from issuance of non-recourse project financing	14,294	—
Stock options exercised	11,908	31,001
Stock option tax benefit	8,115	—
Cash dividends paid	—	(13,724)
Other, net	(258)	(157)
Cash provided by financing activities	79,146	48,905
Effect of exchange rate changes on cash	(4,730)	(15,789)
Increase (decrease) in cash and cash equivalents	(135,032)	38,533
Cash and cash equivalents at beginning of period	789,016	604,517
Cash and cash equivalents at end of period	<u>\$ 653,984</u>	<u>\$643,050</u>

See Accompanying Notes

**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, 2005 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 months ended March 31, 2006 are not necessarily indicative of results that can be expected for the full year.

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all adjustments (consisting of normal recurring accruals) which, in the opinion of the company, are necessary to present fairly its consolidated financial position at March 31, 2006 and its consolidated results of operations and cash flows for the three months ended March 31, 2006 and 2005.

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

\$ in thousands	Three Months Ended March 31	
	2006	2005
Net earnings	\$88,854	\$ 47,393
Foreign currency translation adjustment	(1,594)	(16,459)
Comprehensive income	<u>\$87,260</u>	<u>\$ 30,934</u>

- (3) The effective tax rates, based on the company's actual operating results for the three months ended March 31, 2006 and 2005, were 37.8 percent and 41.2 percent, respectively. The decrease in 2006 is attributable to the absence of foreign losses resulting from provisions on certain international embassy projects recorded in the 2005 period. Such foreign losses in the 2005 period reduced the company's ability to absorb excess foreign taxes incurred in high tax jurisdictions.

Judgment is required in determining the consolidated provision for income taxes as the company considers its worldwide taxable earnings and the impact of the continuous audit process conducted by various tax authorities. The final outcome of these audits by foreign jurisdictions, the Internal Revenue Service and various state governments could differ materially from that which is reflected in the Condensed Consolidated Financial Statements.

- (4) Cash paid for interest was \$5.3 million and \$5.5 million for the three months ended March 31, 2006 and 2005, respectively. Income tax payments, net of receipts, were \$55.9 million and \$24.9 million during the three-month periods ended March 31, 2006 and 2005, respectively.
- (5) In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" (SFAS 123-R), which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123-R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and amends SFAS 95, "Statement of Cash Flows." Generally, the approach in SFAS 123-R is similar to the approach described in SFAS 123. However, SFAS 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values and prohibits the recording of additional capital from restricted stock until those instruments vest. Upon adoption of SFAS 123-R, pro forma disclosure of the impact of share-based payments to employees is no longer an alternative.

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

UNAUDITED

The provisions of SFAS 123-R generally apply to awards granted after the required effective date of the statement, which was January 1, 2006 for the company. The company has elected the modified prospective method of application and, accordingly, has not restated previously reported financial condition, operating results or cash flows. The elimination of additional capital associated with unvested restricted shares resulted in an offsetting reversal of unamortized executive stock plan expense upon implementation of SFAS 123-R. Additionally, the presentation of cash flows for 2006 has been modified to reflect the benefits of tax deductions for stock compensation in excess of recognized compensation cost as financing cash flows, as now required.

The company's executive stock plans are described, and informational disclosures provided, in the Notes to the Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2005. The contractual lives of 2006 awards, which have included stock options and stock appreciation rights, are consistent with those of prior years. Restricted stock awards totaling 264,872 shares have been granted in 2006 at a per share price of \$84.21, vesting over five years.

During the quarter ended March 31, 2006, the company recognized pretax compensation expense of \$938,000 (\$0.01 per diluted share after-tax) associated with stock options, including amounts arising from new stock option awards to purchase 259,175 shares at \$84.21 per share, with annual vesting of 20 percent. The per share fair value of the options, determined using the Black-Scholes option-pricing model and assumptions of a 4.74 year average life, 4.6 percent risk-free interest rate, 1 percent expected dividend yield and 30 percent historical volatility, is \$25.72. Previously under APB 25, no compensation cost was recognized for unvested stock options where the grant price was equal to the market price on the date of grant and the vesting provisions were based only on the passage of time. Had the company recorded compensation expense using the accounting method required by SFAS 123-R, net earnings and earnings per share for the three months ended March 31, 2005 would have been reduced to the pro forma amounts as follows:

\$ in thousands, except per share amounts

<b>Net earnings</b>	
As reported	\$ 47,393
Stock-based employee compensation expense, net of tax	(919)
Pro forma	<u>\$ 46,474</u>
<b>Basic net earnings per share</b>	
As reported	\$ 0.57
Pro forma	<u>\$ 0.56</u>
<b>Diluted net earnings per share</b>	
As reported	\$ 0.56
Pro forma	<u>\$ 0.55</u>

The company has not historically considered retirement eligibility in determining stock-based compensation expense, including expense associated with stock options and restricted stock. The adoption of SFAS 123-R required the company to assume the first date on which an employee becomes eligible to retire in determining the amortization period for future stock-based awards. For example, if the employee is eligible for retirement two years from the date of grant, the amortization period will be no longer than two years rather than the specified service period over which awards normally vest. Retirement eligibility has been considered in the determination of periodic expense on a prospective basis for current year awards, and compensation expense associated with awards granted in prior periods have continued to be recognized using historical straight-line amortization practices.

The impact of using retirement eligibility in determining stock option expense would have been to decrease the pro forma adjustments by approximately 65 percent for the first quarter of 2005. The impact of using retirement eligibility to determine amortization periods for new stock options and restricted stock awards during the first quarter of 2006 was to increase pretax amortization expense by approximately \$0.5 million and \$1.5 million, respectively, for an aggregate after-tax impact of \$0.02 per diluted share. The impact of using retirement eligibility to determine amortization

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

UNAUDITED

periods for previous restricted stock awards would have been to increase recorded restricted stock amortization expense of \$4.8 million by approximately one-third during the 2005 period.

The average trading price of the company's stock during the first quarter of 2006 was \$83 per share. During the three months ended March 31, 2006, 342,000 stock options were exercised at a weighted average exercise price of \$35 per share. As of March 31, 2006, there were 792,000 stock options outstanding with a weighted average exercise price of \$49 per share, of which 528,000 were exercisable with a weighted average exercise price of \$32 per share. As of December 31, 2005 and March 31, 2006, there were 1,498,000 and 1,310,000 unvested shares, respectively, of restricted stock outstanding. The balances of unamortized stock option and restricted stock expense at March 31, 2006 were \$5.9 million and \$53.6 million, respectively.

- (6) Operations are organized in five industry segments: Oil & Gas, Industrial & Infrastructure, Government, Global Services and Power. The Oil & Gas segment provides engineering, procurement and construction professional services for upstream oil and gas production, downstream refining and certain petrochemicals markets. The Industrial & Infrastructure segment provides engineering, procurement and construction professional services for manufacturing and life sciences facilities, commercial and institutional buildings, mining, microelectronics, telecommunications and transportation projects and other facilities. The Government segment provides project management, engineering, construction and contingency response services to the United States government, which represents a significant customer. The Global Services segment includes operations and maintenance, construction equipment, temporary staffing and global procurement services. The Power segment provides professional services to engineer and construct power generation facilities.

Operating information by segment is as follows for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31	
	2006	2005
External Revenue (\$ in millions)		
Oil & Gas	\$1,191.2	\$1,183.9
Industrial & Infrastructure	762.9	670.3
Government	1,133.7	561.1
Global Services	459.3	365.4
Power	77.8	79.1
Total external revenue	\$3,624.9	\$2,859.8
	Three Months Ended March 31	
	2006	2005
Operating Profit (\$ in millions)		
Oil & Gas	\$ 56.7	\$ 54.3
Industrial & Infrastructure	13.6	20.8
Government	78.5	9.1
Global Services	35.6	31.3
Power	—	3.1
Total operating profit	\$ 184.4	\$ 118.6

A reconciliation of the segment information to consolidated amounts for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31	
	2006	2005
\$ in millions		
Total segment operating profit	\$ 184.4	\$ 118.6
Corporate administrative and general expense	41.8	38.1
Interest (income) expense, net	(0.2)	(0.1)
Earnings before taxes	\$ 142.8	\$ 80.6



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

UNAUDITED

Corporate administrative and general expense includes non-operating expense of \$1.0 million and \$1.7 million for the three months ended March 31, 2006 and 2005, respectively.

Total assets in the Oil & Gas segment increased to \$637 million at March 31, 2006 from \$575 million at December 31, 2005 due to additional working capital associated with the higher level of project execution activities. Total assets in the Government segment increased to \$1.3 billion at March 31, 2006 from \$905 million at December 31, 2005 as the result of work being performed in support of the Federal Emergency Management Agency for hurricane relief efforts. Government segment assets include unbilled fees totaling \$136 million on the Fernald project at March 31, 2006, of which \$122 million are included in other current assets and \$14 million are included in other assets in the accompanying Condensed Consolidated Balance Sheet.

- (7) In February 2004, the company issued \$330 million of 1.5% Convertible Senior Notes due February 15, 2024 and received proceeds of \$323 million, net of underwriting discounts. Conversion of the notes may occur only during the fiscal quarter immediately following a quarter in which the conversion trigger price is achieved. Upon conversion, the company initially had the right to deliver, in lieu of common stock, cash or a combination of cash and shares of the company's stock but has subsequently irrevocably elected to pay the principal in cash. During the fourth quarter of 2005 and the first quarter of 2006, the trigger price was achieved for the specified number of days and the notes have therefore been classified as short-term debt as of March 31, 2006 and December 31, 2005.

In December 2004, the company filed a "shelf" registration statement for the issuance of up to \$500 million of any combination of debt securities or common stock, the proceeds from which could be used for debt retirement, the funding of working capital requirements or other corporate purposes. The company has entered into a distribution agreement for up to 2,000,000 shares of common stock. During the quarter ended March 31, 2005, the company sold 758,367 shares under this distribution agreement, realizing net proceeds of \$41.8 million.

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

\$ in thousands	Three Months Ended March 31	
	2006	2005
Service cost	\$ 8,582	\$ 9,127
Interest cost	10,678	11,033
Expected return on assets	(14,846)	(13,455)
Amortization of transition asset	2	3
Amortization of prior service cost	(29)	(28)
Recognized net actuarial loss	4,691	4,404
Net periodic pension expense	<u>\$ 9,078</u>	<u>\$ 11,084</u>

The company currently expects to fund approximately \$40 million to \$60 million during 2006 compared with \$89 million funded in 2005. During the three months ended March 31, 2006, contributions of approximately \$7 million were made by the company.

**FLUOR CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**UNAUDITED**

Net periodic postretirement benefit cost includes the following components:

\$ in thousands	Three Months Ended March 31	
	2006	2005
Service cost	\$ —	\$ —
Interest cost	385	400
Expected return on assets	—	—
Amortization of prior service cost	—	—
Recognized net actuarial loss	280	225
Net periodic postretirement benefit cost	\$ 665	\$ 625

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

- (9) The company and certain of its subsidiaries are involved in litigation in the ordinary course of business. The company and certain of its subsidiaries are contingently liable for commitments and performance guarantees arising in the ordinary course of business. Clients have made claims arising from engineering and construction contracts against the company, and the company has made claims against clients for costs incurred in excess of the current contract provisions. The company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. Recognized claims against clients amounted to \$157 million and \$144 million at March 31, 2006 and December 31, 2005, respectively. Amounts ultimately realized from claims could differ materially from the balances included in the financial statements. The company does not expect that claim recoveries will have a material adverse effect on its consolidated financial position or results of operations.

As of March 31, 2006, several matters on certain completed and in-progress projects are in the dispute resolution process. The following discussion provides a background and current status of certain of these matters:

*Infrastructure Joint Venture Project*

The company participates in a 50/50 joint venture that is executing a fixed-price transportation infrastructure project in California. The project continues to be subject to circumstances including owner-directed scope changes leading to quantity growth, cost escalation, and additional labor, and resulting in additional costs due to schedule delays. The company continues to evaluate the impact of these circumstances on estimated total project costs, as well as claims for recoveries and other contingencies on the project. While the estimate of total project costs is based on the final design including changes directed by the client, any future changes in these estimates will be recognized when identified.

To date, the joint venture has submitted claims totaling approximately \$114 million to the client. Costs of \$32 million have been incurred by the joint venture relating to these claims as of March 31, 2006 and the company has recognized its \$16 million proportionate share of these costs in revenue.

**FLUOR CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(CONTINUED)**  
UNAUDITED

*London Connect Project*

The company is involved in arbitration proceedings in connection with its London Connect Project ("LUL"), a \$500 million lump sum project to design and install a telecommunications network that allows reception and transmissions throughout the London Underground system. In February 2005, the company sought relief through arbitration proceedings for two issues. First, the company is seeking relief for the overall delay and disruption to the project that relates to the contract time period of 2001 through 2003. The arbitration hearing on this matter is scheduled to commence in May 2006. A claim for delay and disruption subsequent to 2003 will be submitted to the dispute resolution process shortly. Costs incurred of \$51 million relating to delay and disruption for the entire contract period have been recognized as claims. The second issue concerns the responsibility for enabling the various train stock to accept the new telecommunication network equipment. Hearings involving LUL, the company and Motorola, a subcontractor, are completed and the parties await the arbitration decision.

*Embassy Projects*

The company has 11 embassy projects that are in various stages of completion under fixed-priced contracts with the United States Department of State. Several of these projects have been adversely impacted by higher costs due to scope changes, unexpected execution problems, increases in material cost and subcontractor difficulties. Claims for equitable adjustment on seven of these projects totaling approximately \$77.5 million have been submitted to date and, as the first formal step in dispute resolution, the majority of these claims have now been certified in accordance with federal contracting requirements, with the balance expected to be certified in the near future. As of March 31, 2006, \$45.5 million in costs relating to these claims have been incurred and recognized in revenue. Additional claim recoveries continue to be evaluated.

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

In October 1998, Fluor Daniel International and Fluor Arabia Ltd. filed a complaint in the United States District Court for the Southern District of New York against General Electric Company and certain operating subsidiaries as well as Saudi American General Electric, a Saudi Arabian corporation. The complaint seeks damages in connection with the procurement, engineering and construction of the Rabigh Combined Cycle Power Plant in Saudi Arabia. Subsequent to a motion to compel arbitration of the matter, the company initiated arbitration proceedings in New York under the American Arbitration Association international rules. The evidentiary phase of the arbitration has been concluded. In January 2005 the arbitration panel indicated that it would be rendering its decision in two phases; the first to be a decision on entitlement and second, a decision on damages. On May 4, 2005 the arbitration panel issued a partial award on entitlement issues which confirmed Fluor's entitlement to recovery of certain of its claims for costs incurred in construction of the plant. A decision determining the amount recoverable has yet to be issued by the arbitration panel.

*Dearborn Industrial Project*

*Duke/Fluor Daniel (D/FD)*

The Dearborn Industrial Project (the "Project") started as a co-generation combined cycle power plant project in Dearborn, Michigan. The initial Turnkey Agreement, dated November 24, 1998, consisted of three phases. Commencing shortly after Notice to Proceed, the owner/operator, Dearborn Industrial Generation ("DIG"), issued substantial change orders enlarging the scope of the project.

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

UNAUDITED

The Project was severely delayed with completion of Phase II. DIG unilaterally took over completion and operation of Phase II and commissioned that portion of the plant. Shortly thereafter, DIG drew upon a \$30 million letter of credit which Duke/Fluor Daniel ("D/FD") expects to recover upon resolution of the dispute. D/FD retains lien rights (in fee) against the project. In October 2001, D/FD commenced an action in Michigan State Court to foreclose on the lien interest.

In December 2001, DIG filed a responsive pleading denying liability and simultaneously served a demand for arbitration to D/FD claiming, among other things, that D/FD is liable to DIG for alleged construction delays and defective engineering and construction work at the Dearborn plant. The court has ordered the matter to arbitration. The lien action remains stayed pending completion of the arbitration of D/FD's claims against DIG and DIG's claims against D/FD. An arbitration panel has been appointed and arbitration is underway.

- (10) In the ordinary course of business, the company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated subsidiaries, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates ranging from mechanical completion of the facilities being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. Amounts that may be required to be paid in excess of estimated costs to complete contracts in progress are not estimable. For cost reimbursable contracts amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract the company may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors for claims. As of March 31, 2006, no material changes to financial or performance assurances to clients had occurred since the filing of the company's December 31, 2005 annual report on Form 10-K.

Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of March 31, 2006, no material changes to financial guarantees of the debt of third parties had occurred since the filing of the company's December 31, 2005 annual report on Form 10-K.

The company has a joint venture arrangement that will design, build, finance and maintain an aircraft refueling facility at a United States Air Force base in Qatar for the Defense Energy Support Center, an agency of the Department of Defense. The company has a 27.5 percent interest in the joint venture company. On April 29, 2005, the joint venture entered into an agreement for project financing which includes joint and several project completion guarantees by the members of the joint venture. The maximum potential amount of future payments that could be required under the guarantee is \$76.5 million, the maximum principal amount available under the financing arrangement, plus any accrued interest. The facility is presently over 65 percent complete and proceeding as expected.

**FLUOR CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(CONTINUED)**  
UNAUDITED

*National Roads Telecommunications Services ("NRTS") Project*

During 2005 the company's Industrial & Infrastructure segment was awarded a \$544 million project by a joint venture, GeneSYS Telecommunications Limited ("GeneSYS"), which is consolidated in the company's consolidated financial statements. The project was entered into with the United Kingdom Secretary of State for Transport (the "Highways Agency") to design, build, maintain and finance a new integrated transmission network throughout England's motorways. The project will be executed by GeneSYS in which the company owns a 45 percent interest and HSBC Infrastructure Fund Management Limited, which owns a 55 percent interest. GeneSYS will finance the engineering and construction ("E&C") of upgraded telecommunications infrastructure with approximately \$240 million (£140 million) of non-recourse debt (the "term loan facility") from a consortium of lenders (the "Banks") along with joint venture member capital contributions totaling approximately \$37 million (£22 million). The equity contributions by the joint venture members have been provided through equity bridge loans from the Banks. The loans have been guaranteed or secured in proportion to each member's equity participation. The equity bridge loans are repayable upon completion of the upgrade at which time the equity members are required to fund their contributions to the joint venture.

During construction, the availability of the existing telecommunications network will be maintained for the Highways Agency by GeneSYS. Upon completion of the upgrade, operating availability of the network will be provided to the Highways Agency and the system will be fully maintained by GeneSYS. Under this arrangement, GeneSYS is entitled to payments from the Highways Agency for network availability, operations and maintenance ("O&M") plus fees for on-demand maintenance services. The company has been engaged by GeneSYS to provide design engineering and construction of the network as well as O&M and on-demand services for the existing and upgraded facilities under a subcontract extending through 2016.

Based on a qualitative analysis of the operations of GeneSYS and the variable interests of all parties to the arrangement, under the provisions of FIN 46-R the company has been determined to be the primary beneficiary of the joint venture. The company's financial statements include the accounts of GeneSYS, and, accordingly, the non-recourse debt provided by the Banks totaling \$71.6 million and \$57.6 million at March 31, 2006 and December 31, 2005, respectively.

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

The term loan facility is an obligation of GeneSYS and will never be a debt obligation of the company because it is non-recourse to the joint venture members. Accordingly, in the event of a default on the term loans, the lenders may only look to the resources of GeneSYS for repayment. The debt will never be repayable from assets of the company beyond its gross \$17 million equity investment plus any unremitted profits in the venture.

The contract has been segmented between the E&C and O&M portions of the work to be performed. The E&C portion of the work will be accounted for using contract accounting revenue recognition principles. Revenue in connection with O&M services including on-demand services will be recognized as earned through the life of the contract.

- (11) As of March 31, 2006, the previously announced relocation of the company's corporate headquarters from Southern California to Irving, Texas is in progress. The new corporate office was officially opened on April 24, 2006 at 6700 Las Colinas Boulevard, Irving, Texas 75039. The

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

UNAUDITED

new telephone number is 469-398-7000. The relocation is being accomplished in phases through June 2006 as all personnel and functions move from the existing Aliso Viejo facility and other locations.

Approximately 130 employees in Southern California that will not be relocating to Texas have already left or will leave the company in the next two months. The cost of these employee displacements has been accrued ratably starting in the third quarter of 2005 through the actual or anticipated date of the Southern California headquarters office closure in the second quarter of 2006. All other relocation and hiring costs are charged to expense as incurred.

For the quarter ended March 31, 2006, corporate administrative expenses include \$2.5 million for relocation costs, which comprises the accrual of employee displacement costs and other direct expenses. Additional employee relocation and hiring costs and facility relocation costs totaling approximately \$16 million are expected to be incurred during the remainder of 2006, which will also be included in corporate administrative and general expense.

The existing corporate facility in Aliso Viejo was sold in September 2005. A short-term, market rate lease-back has been negotiated with the buyer that will terminate on June 30, 2006. The cost of the new Texas headquarters is expected to approximate \$60 million and is being funded from available cash resources including proceeds from the sale of the current headquarters facility.

## FLUOR CORPORATION

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

The following discussion and analysis is provided to increase understanding of, and should be read in conjunction with, the Condensed Consolidated Financial Statements and accompanying notes and the company's December 31, 2005 annual report on Form 10-K. For purposes of reviewing this document, "operating profit" is calculated as revenues less cost of revenues.

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- Difficulties or delays incurred in the execution of construction contracts, including performance by our joint venture partners, resulting in cost overruns or liabilities;
- A failure to obtain favorable results in existing or future litigation or dispute resolution proceedings;
- The potential impact of certain tax matters including, but not limited to, those from foreign operations and the ongoing audits by tax authorities and those resulting from the company's reverse spin-off transaction involving the company's former coal segment;
- Changes in global business, economic (including currency risk), political and social conditions;
- The company's failure to receive anticipated new contract awards and the related impacts on staffing levels and costs;
- Customer cancellations of, or scope adjustments to, existing contracts, including our government contracts that may be terminated at any time;
- The cyclical nature of many of the markets the company serves and its vulnerability to downturns;
- Failure to meet timely completion or performance standards could result in higher costs and reduced profits or, in some cases losses on projects;
- Customer delays or defaults in making payments;
- The company's ability to hire and retain qualified personnel;
- Possible limitations of bonding capacity;
- The availability of credit and restrictions imposed by credit facilities;
- Limitations on cash transfers from subsidiaries may restrict the company's ability to satisfy financial obligations, or to pay interest or principal when due on outstanding debt;
- Competition in the global engineering, procurement and construction industry;
- The company's ability to identify and successfully integrate acquisitions;
- The impact of past and future environmental, health and safety regulations; and
- Restrictions on possible transactions imposed by Delaware law.

While most risks affect only future costs or revenues 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 if liabilities are incurred in excess of amounts previously recognized, a charge against future earnings could result.

Additional information concerning these and other factors can be found in our press releases as well as our periodic filings with the Securities and Exchange Commission, including the discussion under the heading "Item 1. Business-Company Risk Factors" in the company's Form 10-K filed March 1, 2006. These filings are available publicly on the SEC's website at <http://www.sec.gov>, on Fluor's website at <http://investor.fluor.com> or upon request from Fluor's Investor Relations Department: (469) 398-7220. The company disclaims any intent or obligation to update its forward-looking statements, whether as a result of new information, future events or otherwise.

## RESULTS OF OPERATIONS

Net earnings in the three months ended March 31, 2006 were \$88.9 million or \$1.00 per diluted share. These results compare with net earnings of \$47.4 million or \$0.56 per diluted share for the corresponding period of 2005.

Revenues for the three months ended March 31, 2006 were \$3.6 billion compared with \$2.9 billion for the 2005 comparison period. The current year increase was primarily the result of work being performed in support of the Federal Emergency Management Agency ("FEMA") for hurricane relief efforts. The level of FEMA revenues is expected to decline for the balance of 2006, as the company's work on hurricane relief efforts is anticipated to diminish.

Consolidated new awards for the three months ended March 31, 2006 were \$3.8 billion compared with \$3.4 billion in the comparable 2005 period. The Government, Oil & Gas and Industrial & Infrastructure segments had increases in new awards, partially offset by lower new awards in the Global Services and Power segments.

Consolidated backlog at March 31, 2006 of \$15.4 billion was essentially flat compared with backlog at March 31, 2005. Approximately 35 percent of consolidated new awards for the three months ended March 31, 2006 were for projects located outside of the United States. As of March 31, 2006, approximately 60 percent of consolidated backlog relates to international projects. Although backlog reflects business which is considered to be firm, cancellations or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, deferrals and revised project scope and cost, both upward and downward.

### OIL & GAS

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

\$ in millions	Three Months Ended March 31	
	2006	2005
Revenues	\$1,191.2	\$1,183.9
Operating profit	56.7	54.3

Revenues have remained relatively flat in the first quarter of 2006, while the operating profit margin has improved slightly.

New awards for the three months ended March 31, 2006 were \$1.8 billion, compared with \$1.5 billion for the first quarter of 2005. Backlog at March 31, 2006 increased 15 percent to \$6.8 billion compared with \$5.9 billion at March 31, 2005.

Total assets in the Oil & Gas segment increased to \$637 million at March 31, 2006 from \$575 million at December 31, 2005 due to additional working capital associated with the higher level of project execution activities.



## INDUSTRIAL &amp; INFRASTRUCTURE

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

\$ in millions	Three Months Ended March 31	
	2006	2005
Revenues	\$ 762.9	\$ 670.3
Operating profit	13.6	20.8

Revenues for the three months ended March 31, 2006 increased approximately 14 percent compared with the same period in 2005. This increase resulted primarily from higher activity on mining projects.

Operating profit margin in the three months ended March 31, 2006 was 1.7 percent compared with 3.1 percent in the comparable period of the prior year. The 2005 period included very strong performance on one project that is now substantially complete, partly offset by charges totaling approximately \$10 million, primarily arising from three claim settlements. No significant claim settlements occurred during the 2006 period.

New awards for the three months ended March 31, 2006 were \$672 million compared with \$592 million for the 2005 comparison period. Backlog decreased to \$3.8 billion at March 31, 2006 compared with \$4.9 billion at March 31, 2005. The decrease includes the impact of a lower level of new awards over the past year and a higher level of work performed on mining projects.

## GOVERNMENT

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

\$ in millions	Three Months Ended March 31	
	2006	2005
Revenues	\$1,133.7	\$561.1
Operating profit	78.5	9.1

The substantial increase in revenues in the three months ended March 31, 2006 compared with the same period in the prior year was primarily the result of hurricane relief activities in support of FEMA. Work performed in Iraq contributed approximately \$157 million in revenue in the three months ended March 31, 2006 compared with \$137 million in the comparable 2005 period.

The \$69.4 million increase in operating profit during the current year includes significant contributions from FEMA hurricane relief work and the Fernald environmental project. In addition, operating profit in the first quarter of 2005 was adversely impacted by provisions totaling \$31 million on certain embassy projects that are discussed further below.

The segment has recognized unbilled fees totaling \$136 million on the Fernald project at March 31, 2006, including \$6 million during the first quarter of 2006, compared with \$19 million in the same period of 2005. An additional \$30 million of fees were billed during the first quarter of 2006, compared with \$1 million during the 2005 comparison period. Fees recognized in both the 2005 and 2006 periods include the favorable impact of accelerated completion. All unbilled fees on the Fernald project are expected to be billed upon project completion in late 2006.

New awards of \$766 million in the three months ended March 31, 2006 were approximately \$322 million higher than new awards in the 2005 comparison period, principally as the result of FEMA awards.

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Backlog at March 31, 2006 declined to \$1.1 billion from \$1.5 billion at the end of the first quarter last year. Although 2006 new awards have increased relative to 2005, the FEMA awards have generally been performed very quickly and therefore have not significantly impacted current year backlog. Performance on the Fernald project, however, has reduced backlog during 2006, reflecting progress towards completion.

Total assets in the Government segment increased to \$1.3 billion at March 31, 2006 from \$905 million at December 31, 2005 as the result of work being performed in support of the FEMA hurricane relief efforts.

### GLOBAL SERVICES

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

\$ in millions	Three Months Ended March 31	
	2006	2005
Revenues	\$ 459.3	\$ 365.4
Operating profit	35.6	31.3

Revenue and operating profit increased 26 percent and 14 percent, respectively, in the first quarter of 2006 compared with the same period in 2005. The increases resulted primarily from FEMA hurricane relief activities. The operating profit margin has declined somewhat during 2006 primarily as a result of provisions for certain doubtful accounts receivable.

New awards and backlog for Global Services reflect operations and maintenance activities only. The equipment, temporary staffing and global procurement operations do not report backlog due to the short turnaround between the receipt of new awards and the recognition of revenue. New awards for the three months ended March 31, 2006 were \$578 million compared with \$754 million for the 2005 comparison period. Backlog for Global Services at March 31, 2006 was \$2.7 billion compared with roughly the same amount at March 31, 2005.

### POWER

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

\$ in millions	Three Months Ended March 31	
	2006	2005
Revenues	\$ 77.8	\$ 79.1
Operating profit	—	3.1

The decline in operating profit for the first quarter of 2006 compared with the same period in 2005 resulted from a loss on one project and higher bid and proposal overhead in support of new contract pursuit.

New project awards in the first quarter of 2006 were \$6 million compared with \$82 million in the prior year comparison period. Backlog at March 31, 2006 was \$1.1 billion compared with \$483 million at March 31, 2005.

### OTHER

Corporate general and administrative expense for the three months ended March 31, 2006 was \$41.8 million, reflecting a 10 percent increase compared with \$38.1 million in the same period of 2005. This

increase includes the impacts of the relocation of the company's headquarters and the adoption of a new share-based accounting standard discussed below in the 2006 period.

As of March 31, 2006, the previously announced relocation of the company's corporate headquarters from Southern California to Irving, Texas is in progress. The new corporate office was officially opened on April 24, 2006 at 6700 Las Colinas Boulevard, Irving, Texas 75039. The new telephone number is 469-398-7000. The relocation is being accomplished in phases through June 2006 as all personnel and functions move from the existing Aliso Viejo facility and other locations.

Approximately 130 employees in Southern California that will not be relocating to Texas have already left or will leave the company in the next two months. The cost of these employee displacements has been accrued ratably starting in the third quarter of 2005 through the actual or anticipated date of the Southern California headquarters office closure in the second quarter of 2006. All other relocation and hiring costs are charged to expense as incurred.

For the quarter ended March 31, 2006, corporate administrative expenses include \$2.5 million for relocation costs, which comprises the accrual of employee displacement costs and other direct expenses. Additional employee relocation and hiring costs and facility relocation costs totaling approximately \$16 million are expected to be incurred during the remainder of 2006, which will also be included in corporate administrative and general expense.

The existing corporate facility in Aliso Viejo was sold in September 2005. A short-term, market rate lease-back has been negotiated with the buyer that will terminate on June 30, 2006. The cost of the new Texas headquarters is expected to approximate \$60 million and is being paid from available cash resources including proceeds from the sale of the current headquarters facility.

There was no significant variation in net interest income in the first quarter of 2006 compared with same period of 2005.

The effective tax rates, based on the company's actual operating results for the three months ended March 31, 2006 and 2005, were 37.8 percent and 41.2 percent, respectively. The decrease in 2006 is attributable to the 2005 international embassy contract provisions discussed under Government above. Such foreign losses reduced the company's ability to absorb excess foreign taxes incurred in high tax jurisdictions.

#### ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" (SFAS 123-R), which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123-R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and amends SFAS 95, "Statement of Cash Flows." Generally, the approach in SFAS 123-R is similar to the approach described in SFAS 123. However, SFAS 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values and prohibits the recording of additional capital from restricted stock until those instruments vest. Upon adoption of SFAS 123-R, pro forma disclosure of the impact of share-based payments to employees is no longer an alternative.

The provisions of SFAS 123-R generally apply to awards granted after the required effective date of the statement, which was January 1, 2006 for the company. The company has elected the modified prospective method of application and, accordingly, has not restated previously reported financial condition, operating results or cash flows. The elimination of additional capital associated with unvested restricted shares resulted in an offsetting reversal of unamortized executive stock plan expense upon implementation of SFAS 123-R. Additionally, the presentation of cash flows for 2006 has been modified to reflect the benefits of tax deductions for stock compensation in excess of recognized compensation cost as financing cash flows, as now required.

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During the quarter ended March 31, 2006, the company recognized pretax compensation expense of \$938,000 (\$0.01 per diluted share after-tax) associated with stock options, including amounts arising from new stock option awards. The per share fair value of such options was determined using the Black-Scholes option-pricing model. Previously under APB 25, no compensation cost was recognized for unvested stock options where the grant price was equal to the market price on the date of grant and the vesting provisions were based only on the passage of time. Had SFAS 123-R been adopted in prior periods, the impact would be as presented in the disclosure of pro forma earnings and earnings per share in Note 5 in the accompanying Condensed Consolidated Financial Statements.

The company has not historically considered retirement eligibility in determining stock-based compensation expense, including expense associated with stock options and restricted stock. The adoption of SFAS 123-R required the company to assume the first date on which an employee becomes eligible to retire in determining the amortization period for future stock-based awards. For example, if the employee is eligible for retirement two years from the date of grant, the amortization period will be no longer than two years rather than the specified service period over which awards normally vest. Retirement eligibility has been considered in the determination of periodic expense on a prospective basis for current year awards, and compensation expense associated with awards granted in prior periods have continued to be recognized using historical straight-line amortization practices.

The impact of using retirement eligibility in determining stock option expense would have been to decrease the pro forma adjustments by approximately 65 percent for the first quarter of 2005. The impact of using retirement eligibility to determine amortization periods for new stock option and restricted stock awards during the first quarter of 2006 was to increase pretax amortization expense by approximately \$0.5 million and \$1.5 million, respectively, for an aggregate after-tax impact of \$0.02 per diluted share. The impact of using retirement eligibility to determine amortization periods for restricted stock would have been to increase restricted stock amortization expense of \$4.8 million by approximately one-third during the 2005 period.

### **MATTERS IN DISPUTE RESOLUTION**

As of March 31, 2006, the following matters relating to completed and in progress projects are in the dispute resolution process:

*Infrastructure Joint Venture Project*

*London Connect Project*

*Embassy Projects*

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

*Dearborn Industrial Project*

*Duke/Fluor Daniel (D/FD)*

Discussion of the status of the projects identified above is included in Footnote 9 to the Condensed Consolidated Financial Statements.

### **FINANCIAL POSITION AND LIQUIDITY**

In the three months ended March 31, 2006, cash used by operating activities of \$158.3 million resulted from substantial working capital requirements to support the FEMA hurricane efforts, partially offset by earnings sources.

Cash utilized by investing activities was \$51.1 million in the first quarter of 2006 compared with \$31.5 million in the 2005 comparison period. Capital expenditures, primarily for construction of the new headquarters facility and ongoing renewal and replacement in the construction equipment operations,

including operations in Iraq, were \$56.1 million in the three months ended March 31, 2006 compared with \$33.2 million in the same period of 2005.

Cash provided by financing activities in the first three months of 2005 included the issuance of 758,367 shares of common stock, resulting in net proceeds of \$41.8 million. Also impacting cash flows in the first quarter of both 2006 and 2005 was \$11.9 million and \$31.0 million, respectively, in cash received from the exercise of stock options. Declared dividends are typically paid during the month following the quarter in which they are declared. However, for the dividend paid to shareholders as of January 3, 2006, payment by the company to the disbursing agent occurred in the month of December 2005, resulting in no cash payment by the company in the first quarter of 2006. Cash utilized for the payment of dividends in the three months ended March 31, 2005 was \$13.7 million (\$0.16 per share). During the first quarter of 2006, the company's Board of Directors authorized an increase in the dividend payable April 3, 2006 to \$0.20 per share. The company's total debt to total capitalization ("debt-to-capital") ratio at March 31, 2006 is 21.9 percent compared with 20.6 percent at December 31, 2005.

Liquidity is provided by cash generated from operations, advance billings on contracts in progress and access to financial markets. As customer advances are reduced through use in project execution and if not replaced by advances on new projects, the company's cash position would be reduced. The requirements for operating liquidity resulted in the need for short-term commercial paper borrowings of \$45 million during the first quarter of 2006. For the next 12 months, cash generated from operations supplemented by borrowings under credit facilities and the issuance of debt or equity securities are expected to be sufficient to fund operations.

During 2004, the company issued \$330 million of 1.5 percent Convertible Senior Notes (the "Notes") due 2024, realizing net proceeds of \$323 million. In December 2004, the company irrevocably elected to pay the principal amount of the Notes in cash if a specified trading price of the company's common stock (the "trigger price") is achieved and maintained for a specified period and the Notes are presented by the holders for conversion. During the fourth quarter of 2005 and the first quarter of 2006, the trigger price was achieved for the specified number of days and the Notes have therefore been classified as short-term debt as of March 31, 2006 and December 31, 2005. The company does not know the amount, if any, of the Notes that will be presented for conversion, and will use available cash balances to satisfy any required repayments.

#### Off-Balance Sheet Arrangements

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

In the ordinary course of business, the company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated subsidiaries, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates ranging from mechanical completion of the facilities being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. In most cases any amounts expended on behalf of a partner or joint venture participant pursuant to performance guarantees would be recovered from the client or other third party for work performed in the ordinary course of contract execution. As of March 31, 2006, no material changes to financial or performance assurances to clients have occurred since the filing of the company's December 31, 2005 annual report on Form 10-K.

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Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of March 31, 2006, no material changes to financial guarantees of the debt of third parties had occurred since the filing of the company's December 31, 2005 annual report on Form 10-K.

The company has a joint venture arrangement that will design, build, finance and maintain an aircraft refueling facility at a United States Air Force base in Qatar for the Defense Energy Support Center, an agency of the Department of Defense. The company has a 27.5 percent interest in the joint venture company. On April 29, 2005, the joint venture entered into an agreement for project financing which includes a joint and several project completion guarantee by the members of the joint venture. The maximum potential amount of future payments that could be required under the guarantee is \$76.5 million, the maximum principal amount available under the financing arrangement, plus any accrued interest. The facility is presently over 65 percent complete and proceeding as expected.

### *National Roads Telecommunications Services ("NRTS") Project*

During 2005 the company's Industrial & Infrastructure segment was awarded a \$544 million project by a joint venture, GeneSYS Telecommunications Limited ("GeneSYS"), which is consolidated in the company's consolidated financial statements. The project was entered into with the United Kingdom Secretary of State for Transport (the "Highways Agency") to design, build, maintain and finance a new integrated transmission network throughout England's motorways. The project will be executed by GeneSYS in which the company owns a 45 percent interest and HSBC Infrastructure Fund Management Limited, which owns a 55 percent interest. GeneSYS will finance the engineering and construction ("E&C") of upgraded telecommunications infrastructure with approximately \$240 million (£140 million) of non-recourse debt (the "term loan facility") from a consortium of lenders (the "Banks") along with joint venture member capital contributions totaling approximately \$37 million (£22 million). The equity contributions by the joint venture members have been provided through equity bridge loans from the Banks. The loans have been guaranteed or secured in proportion to each member's equity participation. The equity bridge loans are repayable upon completion of the upgrade at which time the equity members are required to fund their contributions to the joint venture.

During construction, the availability of the existing telecommunications network will be maintained for the Highways Agency by GeneSYS. Upon completion of the upgrade, operating availability of the network will be provided to the Highways Agency and the system will be fully maintained by GeneSYS. Under this arrangement, GeneSYS is entitled to payments from the Highways Agency for network availability, operations and maintenance ("O&M") plus fees for on-demand maintenance services. The company has been engaged by GeneSYS to provide design engineering and construction of the network as well as O&M and on-demand services for the existing and upgraded facilities under a subcontract extending through 2016.

Based on a qualitative analysis of the operations of GeneSYS and the variable interests of all parties to the arrangement, under the provisions of FIN 46-R the company has been determined to be the primary beneficiary of the joint venture. The company's financial statements include the accounts of GeneSYS, and, accordingly, the non-recourse debt provided by the Banks totaling \$71.6 million and \$57.6 million at March 31, 2006 and December 31, 2005, respectively.

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

The term loan facility is an obligation of GeneSYS and will never be a debt obligation of the company because it is non-recourse to the joint venture members. Accordingly, in the event of a default on the term loans, the lenders may only look to the resources of GeneSYS for repayment. The debt will never be

repayable from assets of the company beyond its gross \$17 million equity investment plus any un-remitted profits in the venture.

The contract has been segmented between the E&C and O&M portions of the work to be performed. The E&C portion of the work will be accounted for using contract accounting revenue recognition principles. Revenue in connection with O&M services including on-demand services will be recognized as earned through the life of the contract.

#### Financial Instruments

The company utilizes forward exchange contracts to hedge foreign currency transactions entered into in the ordinary course of business and not to engage in currency speculation. At March 31, 2006, the company had forward foreign exchange contracts of less than 24 months duration to exchange major world currencies for U.S. dollars. The total gross notional amount of these contracts at March 31, 2006 was \$295 million.

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

There have been no material changes on this matter in the first quarter of 2006. Accordingly, the disclosures provided in the Annual Report on Form 10-K for the year ended December 31, 2005 remain current.

#### Item 4. Controls and Procedures

##### *Evaluation of Disclosure Controls and Procedures*

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

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

##### *Changes in Internal Control over Financial Reporting*

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

The new corporate office in Irving, Texas was officially opened on April 24, 2006. In connection with the relocation we have hired a number of new employees and outsourced certain functions. The company is pleased with the progress on the relocation. See Item 1A. "Risk Factors – Our continued success requires us to hire and retain qualified personnel" in the Annual Report on Form 10-K for the year ended December 31, 2005.

**FLUOR CORPORATION**  
**CHANGES IN CONSOLIDATED BACKLOG**  
Three Months Ended March 31, 2006 and 2005

UNAUDITED

\$ in millions	Three Months Ended March 31	
	2006	2005
Backlog – beginning of period	\$ 14,926.6	\$ 14,765.8
New awards	3,825.8	3,350.7
Adjustments and cancellations, net	165.8	106.0
Work performed	(3,540.9)	(2,806.5)
Backlog – end of period	<u>\$ 15,377.3</u>	<u>\$ 15,416.0</u>



## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

Fluor and its subsidiaries, incidental to their normal business activities, are parties to a number of legal proceedings and other matters in various stages of development. While we cannot predict the outcome of these proceedings, in our opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate are not expected to have a material adverse effect upon the consolidated financial position, or the results of operations of the company, after giving effect to provisions already recorded.

### Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2005, under Item 1A. "Risk Factors" includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factor information disclosed in the Form 10-K.

***We may need to raise additional capital in the future for working capital, capital expenditures and/or acquisitions, and we may not be able to do so on favorable terms or at all, which would impair our ability to operate our business or achieve our growth objectives.***

To the extent that cash flow from operations, together with available borrowings under our credit facility, is insufficient to make future investments, make acquisitions or provide needed additional working capital, we may require additional financing from other sources. Our ability to obtain such additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us. If adequate funds are not available, or are not available on acceptable terms, we may not be able to make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges.

**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 March 31, 2006 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**  
(in thousands, except per share data)

Period	Total Number of Shares Purchased <sup>(1)</sup>	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 <sup>(2)</sup>
January 1, 2006 – January 31, 2006	5	\$ 80.77	N/A	4,141
February 1, 2006 – February 28, 2006	82	\$ 87.68	N/A	4,141
March 1, 2006 – March 31, 2006	10	\$ 84.68	N/A	4,141
Total	<u>97</u>	\$ 87.03		

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

(2) On September 20, 2001, the company announced that the Board of Directors had approved the repurchase of up to five million shares of our common stock. That authorization is ongoing and does not have an expiration date.

**Item 4. Submission of Matters to a Vote of Security Holders**

- (a) The annual meeting of shareholders of Fluor Corporation was held on May 3, 2006.
- (b) Three Class I directors were elected to serve for a term of three years, ending at the 2009 annual meeting of shareholders. The three Class I directors are Alan L. Boeckmann, Vilma S. Martinez and Dean R. O'Hare. Continuing directors include four Class II directors, James T. Hackett, Kent Kresa, Lord Robin W. Renwick and Peter S. Watson, and three Class III directors, Peter J. Fluor, Joseph W. Prueher and Suzanne H. Woolsey.
- (c) The following three Class I directors were elected to serve a term of three years, ending at the 2009 annual meeting:

	Votes For	Votes Withheld
Alan L. Boeckmann	78,103,443	1,223,234
Vilma S. Martinez	71,364,795	7,961,882
Dean R. O'Hare	78,396,535	930,142

In addition, the shareholders approved the following proposal:

	For	Against	Abstain	Broker Non-Votes
Ratification of the appointment of Ernst & Young LLP as independent auditors for the year ended December 31, 2006	78,633,790	186,184	506,704	0

Finally, the following proposal presented by a shareholder was not approved:

	For	Against	Abstain	Broker Non-Votes
Shareholder proposal that the Board of Directors adopt a policy that a significant portion of future stock option grants to senior executives be performance-based	20,836,501	50,446,587	726,117	7,317,473

**Item 6. Exhibits**

<b>Exhibit</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of the registrant (1)
3.2	Amended and Restated Bylaws of the registrant *
4.1	Indenture between Fluor Corporation and Bank of New York, as trustee dated as of February 17, 2004 (2)
10.1	Distribution Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) (3)
10.2	Tax Sharing Agreement between Fluor Corporation and A.T. Massey Coal Company, Inc.(4)
10.3	Fluor Corporation 2000 Executive Performance Incentive Plan (5)
10.4	Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors (6)
10.5	Fluor Corporation Executive Deferred Compensation Plan, as amended and restated effective January 1, 2002 (7)
10.6	Fluor Corporation Deferred Directors' Fees Program, as amended and restated effective January 1, 2002 (8)
10.7	Directors' Life Insurance Summary(1)
10.8	Fluor Executives' Supplemental Benefit Plan (1)
10.9	Fluor Corporation Retirement Plan for Outside Directors (1)
10.10	Executive Severance Plan (10)
10.11	2001 Key Employee Performance Incentive Plan (7)
10.12	2001 Fluor Stock Appreciation Rights Plan (7)
10.13	Fluor Corporation 2003 Executive Performance Incentive Plan (8)
10.14	Form of Compensation Award Agreements for grants under the Fluor Corporation 2003 Executive Performance Incentive Plan (11)
10.15	Code of Ethics and Business Conduct, as amended and restated (9)
10.16	Offer of Employment Letter dated May 7, 2001 from Fluor Corporation to D. Michael Steuert (9)
10.17	Credit Agreement dated as of July 28, 2004 among Fluor Corporation, the lenders party thereto from time to time, BNP Paribas, as Administrative Agent and an Issuing Lender, and Bank of America, N.A. and Citicorp USA, Inc., as Co-Syndication Agents (10)
10.18	Special Retention Agreement, dated March 27, 2006, between Fluor Corporation and John Hopkins *
31.1	Certification of Chief Executive Officer of Fluor Corporation *
31.2	Certification of Chief Financial Officer of Fluor Corporation *

[Table of Contents](#)

Exhibit	Description
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 *
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 *

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\* New exhibit filed with this report.

- (1) Filed as the same numbered exhibit to the Registrant's Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000 and incorporated herein by reference.
- (2) Filed as an exhibit to the Registrant's report on Form 8-K filed on February 17, 2004 incorporated herein by reference.
- (3) Filed as Exhibit 10.1 to the Registrant's report on Form 8-K dated December 7, 2000 and incorporated herein by reference.
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- (9) Filed as an exhibit to the Registrant's report on Form 10-K filed on March 15, 2004 and incorporated herein by reference.
- (10) Filed as an exhibit to the Registrant's report on Form 10-Q filed on August 9, 2004 and incorporated herein by reference.
- (11) Filed as an exhibit to the Registrant's report on Form 10-Q filed on November 9, 2004 and incorporated herein by reference.

**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: May 8, 2006

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

Date: May 8, 2006

/s/ V.L. Prechtl  
\_\_\_\_\_  
V. L. Prechtl  
Vice President and Controller

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Amended and Restated  
BYLAWS  
(as amended May 3, 2006)  
OF  
FLUOR CORPORATION  
(a Delaware corporation)

ARTICLE I

OFFICES

Section 1.01 Registered Office. The registered office of FLUOR CORPORATION (hereinafter called the "Corporation") in the State of Delaware shall be at 160 Greentree Drive, Suite 101, City of Dover, County of Kent, 19904 and the name of the registered agent at that address shall be National Registered Agents, Inc.

Section 1.02 Principal Office. The principal office for the transaction of the business of the Corporation shall be at 6700 Las Colinas Boulevard, Irving, Texas 75039. The Board of Directors (hereinafter called the "Board") is hereby granted full power and authority to change said principal office from one location to another.

Section 1.03 Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board may from time to time determine or as the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 2.01 Annual Meetings. Annual meetings of the stockholders of the Corporation for the purpose of electing directors and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Board shall determine by resolution.

Section 2.02 Special Meetings. Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the Board or by a committee of the Board which has been duly created by the Board and whose powers and authority, as provided in a resolution of the Board or in the Bylaws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons; provided, however, that if and to the extent that any special meeting of stockholders may be called by any other person or persons specified in any provisions of the Certificate of Incorporation or any amendment thereto or any certificate filed under Section 151(g) of the General Corporation Law of the State of Delaware (or its successor statute as in effect from time to time hereafter), then

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such special meeting may also be called by the person or persons, in the manner, at the times and for the purposes so specified.

Section 2.03 Place of Meetings. All meetings of the stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof.

Section 2.04 Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the Corporation's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 2.04 is delivered to the Secretary of the Corporation, who is entitled to vote at the

meeting and who complies with the notice procedures set forth in this Section 5.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Section 2.04, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business other than the nominations of persons for election to the Board of Directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than seventy days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (a) as to each person whom the stockholder proposes to nominate for election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material

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interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 2.04 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 2.04 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal

executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 2.04 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 2.04. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this Section 2.04 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the

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close of business on the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.04 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.04. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 2.04 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(2)(c)(iv) of this Section 2.04) and (b) if any proposed nomination or business was not made or proposed in compliance with this Section 2.04, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 5, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(2) For purposes of this Section 2.04, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 2.04, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.04. Nothing in this Section 2.04 shall be deemed to affect any rights (a) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (b) of the holders of any series of Preferred Stock to elect directors pursuant

to any applicable provisions of the certificate of incorporation.

Section 2.05 Notice of Meetings. Except as otherwise required by law, the certificate of incorporation or the Bylaws, notice of each meeting of the stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder of record entitled to vote at such meeting by delivering a notice thereof to him or her personally, or by depositing such notice in the United States mail, in a postage prepaid

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envelope, directed to him or her at his or her post office address furnished by him or her to the Secretary of the Corporation for such purpose or, if he or she shall not have furnished to the Secretary his or her address for such purposes or if otherwise consented to by such stockholder, then at his or her post office address last known to the Secretary, or by transmitting a notice thereof to him or her at such address by means of electronic transmission. Except as otherwise expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. Every notice of a meeting of the stockholders shall state the place, date and hour of the meeting, and, in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall have waived such notice and such notice shall be deemed waived by any stockholder who shall attend such meeting in person or by proxy, except a stockholder who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the stockholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

Section 2.06 Quorum. Except in the case of any meeting for the election of directors summarily ordered as provided by law, the holders of record of a majority of the voting power of the shares of stock of the Corporation entitled to be voted thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders of the Corporation or any adjournment thereof. In the absence of a quorum at any meeting or any adjournment thereof, the holders of a majority of the voting power of the stockholders present in person or by proxy and entitled to vote thereat or, in the absence thereof of all the stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

#### Section 2.07 Voting.

(a) Except as otherwise provided by or pursuant to the provisions of the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy each share or fractional share of the stock of the Corporation having voting rights on the matter in question and which shall have been held by him or her and registered in his or her name on the books of the Corporation:

(i) on the date fixed pursuant to Section 6.05 of the Bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (a) at the close of business on the day next preceding the day on which notice of the meeting shall be given or (b) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which meeting shall be held.

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(b) Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the corporation or any subsidiary of the corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity. Persons holding stock of the Corporation in a fiduciary capacity shall be entitled to vote such stock. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation such person has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or such person's proxy, may represent such stock and vote thereon. Stock having voting power standing of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, shall be voted in accordance with the provisions of the General Corporation Law of the State of Delaware.

(c) Any such voting rights may be exercised by the stockholder entitled thereto in person or by his or her proxy or by his or her attorney thereunto authorized and delivered to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three years from its date unless said proxy shall provide for a longer period. The attendance at any meeting by a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless he or she shall in writing so notify the secretary of the meeting prior to the voting of the proxy. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by the certificate of incorporation, these by-laws, the rules or regulations of any stock exchange applicable to the corporation, or applicable law or pursuant to any regulation applicable to the corporation or its securities, be decided by the affirmative vote of the holders of a majority in voting power of the shares of stock of the corporation which are present in person or by proxy and entitled to vote thereon. The vote at any meeting of the stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot each ballot shall be signed by the stockholder voting, or by his or her proxy, if there be such proxy, and it shall state the number of shares voted.

Section 2.08 List of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, as required by applicable law. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.09 Inspectors of Election. The corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The corporation may designate one or more persons as alternate

inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of capital stock of the corporation outstanding and the voting power of each such share, (ii) determine the shares of capital stock of the corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any

challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of capital stock of the corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the corporation, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election

### ARTICLE III

#### BOARD OF DIRECTORS

Section 3.01 General Powers. The property, business and affairs of the Corporation shall be managed by the Board.

Section 3.02 Number. The authorized number of Directors of the Corporation shall be ten and such authorized number shall not be changed except by a Bylaw or amendment thereof duly adopted by the stockholders in accordance with the Certificate of Incorporation or by the Board amending this Section 3.02.

Section 3.03 Election of Directors. The directors shall be elected by the stockholders of the Corporation, and at each election the persons receiving the greatest number of votes, up to the number of directors then to be elected, shall be the persons then elected. The election of directors is subject to any provisions contained in the Certificate of Incorporation relating thereto, including any provisions for a classified board.

Section 3.04 Mandatory Retirement. The Chairman of the Board and the President and any former Chairman of the Board and any former President, if serving as a director of the Corporation at age 72, shall retire from the Board at the end of the calendar year in which his or her 72nd birthday occurs. Each other employee or former employee of the Corporation or its subsidiaries serving as a director of the Corporation at age 65 shall retire from the Board at the end of the calendar year in which his or her 65th birthday occurs unless the Chairman of the Board recommends and the Board approves his or her continued service as a non-employee director. Each other employee of the Corporation or its subsidiaries under age 65 serving as a director of the Corporation who elects to take early retirement or who for any other reason is no longer an officer of the Corporation or its subsidiaries shall retire from the Board as of the date he or she ceases to be an officer unless the Chairman of the Board recommends and the Board

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approves his or her continued directorship. Each non-employee director of the Corporation serving at age 72 shall retire from the Board at the end of the calendar year in which his or her 72nd birthday occurs. For purposes of this Section, "end of the calendar year" shall include the period ending with the seventh day of January next following.

Section 3.05 Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board or to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, it shall take effect immediately upon its receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.06 Vacancies. Except as otherwise provided in the Certificate of Incorporation, any vacancy in the Board, whether because of death, resignation, disqualification, an increase in the number of directors, or any other cause, shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board. Any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until such director's successor shall be elected and qualified. No decrease in the number of directors shall shorten the term of any incumbent director.

Section 3.07 Place of Meeting, etc. The Board may hold any of its meetings at such place or places within or without the State of Delaware and at such times as the Board may from time to time determine. Directors may participate in

any regular or special meeting of the Board by means of conference telephone or other communications equipment pursuant to which all persons participating in the meeting of the Board can hear each other, and such participation shall constitute presence in person at such meeting.

Section 3.08 First Meeting. The Board shall meet as soon as practicable after each annual election of directors and notice of such first meeting shall not be required.

Section 3.09 Regular Meetings. Regular meetings of the Board may be held at such times as the Board shall from time to time by resolution determine. If any day fixed for a meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

Section 3.10 Special Meetings. Special meetings of the Board may be called at any time by the Chairman of the Board or the President or by any two directors, to be held at the principal office of the Corporation, or at such other place or places, within or without the State of Delaware, as the person or persons calling the meeting may designate. Notice of all special meetings of the Board shall be given to each director by two days' service of the same by telegram, by letter, or personally. Such notice may be waived by any director and any meeting shall be a legal meeting without notice having been given if all the directors shall be present thereat or if those not present shall, either before or after the meeting, sign a written waiver of notice of, or a consent to, such meeting or shall after the meeting sign the approval of the

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minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or be made a part of the minutes of the meeting.

Section 3.11 Quorum and Manner of Acting. Except as otherwise provided in the Bylaws or by law, the presence of a majority of the whole Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board, and all matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the directors present. In the absence of a quorum, a majority of directors present at any meeting may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The directors shall act only as a Board, and the individual directors shall have no power as such.

Section 3.12 Action by Consent. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic means, and such consents are filed with the minutes of proceedings of the Board of Directors or such committee.

Section 3.13 Compensation. No stated salary need be paid directors, as such, for their services, but, by resolution of the Board, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Board or an annual directors' fee may be paid; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefore. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.14 Committees. The Board may, by resolution passed by the Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Former employees of the Corporation or its subsidiaries who are no longer officers of the Corporation or its subsidiaries, if serving as a director of the Corporation, shall not be eligible to serve as a member of any committee of the Board. Except as otherwise provided in the Board resolution designating a committee, the presence of a majority of the authorized number of members of such committee shall be required to constitute a quorum for the transaction of business at any meeting of such committee. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the

Corporation to be affixed to all papers which may require it; but no such committee shall have any power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of the dissolution, or amending the Bylaws of the Corporation; and unless the resolution of the Board expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Any such committee shall keep written minutes of its meetings and report the same to the Board at the next regular meeting of the Board.

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Section 3.15 Officers of the Board. The Board shall have a Chairman of the Board and may, at the discretion of the Board, have a Vice Chairman and other officers. The Chairman of the Board and the Vice Chairman shall be appointed from time to time by the Board, unless such positions are elected offices of the Corporation, currently filled, and shall have such powers and duties as shall be designated by the Board.

ARTICLE IV

OFFICERS

Section 4.01 Officers. The officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a Secretary, a Treasurer and such other officers as may be appointed by the Board as the business of the Corporation may require. Officers shall have such powers and duties as are permitted or required by law or as may be specified by or in accordance with resolutions of the Board. Any number of offices may be held by the same person. Unless the Board shall otherwise determine, the Chairman of the Board shall be the Chief Executive Officer of the Corporation. In the absence of any contrary determination by the Board, the Chief Executive Officer shall, subject to the power and authority of the Board, have general supervision, direction and control of the officers, employees, business and affairs of the Corporation.

Section 4.02 Election and Term. The officers of the Corporation shall be elected annually by the Board. The Board may at any time and from time to time elect such additional officers as the business of the Corporation may require. Each officer shall hold his or her office until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Section 4.03 Removal and Resignation. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board. Any officer may resign at any time by giving notice to the Board. Such resignation shall take effect at the time specified in such notice or, in the absence of such specification, at the date of the receipt by the Board of such notice. Unless otherwise specified in such notice, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.04 Vacancies. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, shall be filled in the manner prescribed in these Bylaws for the regular appointment to such office.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

Section 5.01 Execution of Contracts. The Board, except as in the Bylaws otherwise provided, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Corporation, and such authority may be

general or confined to specific instances; and unless so authorized by the Board or by the Bylaws, no officer, agent or employee shall have any power or



authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 5.02 Checks, Drafts, etc. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board. Each such person shall give such bond, if any, as the Board may require.

Section 5.03 Deposit. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, the Chief Executive Officer, the President or the Treasurer (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation who shall from time to time be determined by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

Section 5.04 General and Special Bank Accounts. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of the Bylaws, as it may deem expedient.

## ARTICLE VI

### SHARES AND THEIR TRANSFER

Section 6.01 Certificates for Stock. Every owner of stock of the Corporation shall be entitled to have a certificate or certificates, to be in such form as the Board shall prescribe, certifying the number and class of shares of the stock of the Corporation owned by him or her. The certificates representing shares of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the President and by the Secretary. Any or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any such certificate shall thereafter have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. A record shall be kept of the respective names of the persons, firms or corporations owning the

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stock represented by such certificates, the number and class of shares represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided for in Section 6.04 of the Bylaws.

Section 6.02 Transfers of Stock. Transfers of shares of stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, or with a transfer clerk or a transfer agent appointed as provided in Section 6.03 of the Bylaws, and upon surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact shall be stated

expressly in the entry of transfer if, when the certificate or certificates shall be presented to the Corporation for transfer, both the transferor and the transferee request the Corporation to do so.

Section 6.03 Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with the Bylaws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

Section 6.04 Lost, Stolen, Destroyed, And Mutilated Certificates. In any case of loss, theft, destruction, or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sum as the Board may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Board, it is proper so to do.

Section 6.05 Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If, in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders, the Board shall not fix such a record date, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

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## ARTICLE VII

### MISCELLANEOUS

Section 7.01 Seal. The Board shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation and words and figures showing that the Corporation was incorporated in the State of Delaware and the year of incorporation.

Section 7.02 Waiver of Notices. Whenever notice is required to be given by the Bylaws or the Certificate of Incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice.

Section 7.03 Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December of each year.

Section 7.04 Amendments. The Bylaws, or any of them, may be rescinded, altered, amended or repealed, and new Bylaws may be made, (i) by the Board, by vote of a majority of the number of directors then in office as directors, acting at any meeting of the Board, or (ii) by the vote of the holders of not less than 80% of the total voting power of all outstanding shares of voting stock of the Corporation, at any annual meeting of stockholders, without previous notice, or at any special meeting of stockholders, provided that notice of such proposed amendment, modification, repeal or adoption is given in the notice of special meeting. Any Bylaws made or altered by the stockholders may be altered or repealed by the Board or may be altered or repealed by the stockholders.

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(FLUOR(R) LOGO)

ALAN L. BOECKMANN  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Fluor Corporation  
1 Enterprise  
Aliso Viejo, CA 92656-2606

March 27, 2006

Mr. John L. Hopkins  
1853 Broken Bend  
Westlake, TX 76262

Dear John:

It is my pleasure to inform you that I have approved a special Retention Award for you which has been structured as follows:

AWARD AMOUNT: \$1,500,000 total award, 50% in cash credited to your Fluor Deferred Compensation Program account and 50% in restricted stock.

RETENTION PERIOD: APRIL 1, 2006 THROUGH MARCH 31, 2010.

RETENTION AGREEMENT: CASH CREDITED TO Your Fluor Deferred Compensation Program Account The initial cash award of \$750,000 will be credited to a money market account. You are eligible to change the initial crediting option to other available crediting options consistent with program administration.

- \$187,500 of the cash credited to your account will vest on March 31, 2007, if you are actively employed with the Company on that date.
- \$187,500 of the cash credited to your account will vest on March 31, 2008, if you are actively employed with the Company on that date.
- \$187,500 of the cash credited to your account will vest on March 31, 2009, if you are actively employed with the Company on

that date.

- The remaining \$187,500 of the cash credited to your account plus any accrued gains or losses will vest on March 31, 2010, if you are actively employed with the Company on that date.

You will need to make a deferral election to correspond with this award to determine how it will be distributed (a form is enclosed) within 5 days after signing this agreement.

Restricted Stock Component

\$750,000 of restricted stock will be earned and vested upon completion of continuous employment through March 31, 2010.

You will earn each portion of your Retention Award (a) if you remain continuously employed by the Company as stated above or (b) if your employment terminates prior to the above dates due to (i) death, (ii) permanent and total disability, (iii) a Company-initiated termination other than on a for-cause

basis or (iv) a Company initiated termination following a Change of Control. If in the event your employment terminates prior to an earnout date for any reason (including, without limitation, your voluntary termination or a termination for cause), then 100 percent of the unearned retention award will be forfeited.

Mr. John L. Hopkins  
March 27, 2006  
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For purposes hereof, the term "Change of Control" shall be deemed to have occurred if, (a) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, acquires shares of the Company having 25% or more of the votes that may be cast for the election of Directors of the Company or (b) as a result of any cash tender or exchange offer, merger or other business combination, or any combination of the preceding (a "transaction"), the persons who are the Directors of the Company before the transaction shall cease to constitute a majority of the Board of Directors of the Company or any successor thereto.

You expressly agree to maintain strict confidentiality of this Retention Award. You may not disclose this agreement to anyone other than your spouse or confidential financial advisor, Alan Boeckmann, and Steve Gilbert. If disclosure is made to any other person, this award shall be forfeited.

Please indicate your acknowledgment of the terms of the letter by signing in the space provided and returning the original to Steve Gilbert in the enclosed envelope. You should also retain a copy for your file.

If you should have any questions, please give me a call or Steve Gilbert at 949.349.2211.

Sincerely,

/s/ Alan L. Boeckmann  
-----  
Alan L. Boeckmann  
Chairman and Chief Executive Officer

Agreed by:

/s/ John L. Hopkins	March 27, 2006
-----	Date
John L. Hopkins	
cc: Steve Gilbert	

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Alan L. Boeckmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fluor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2006

By: /s/ Alan L. Boeckmann

Alan L. Boeckmann,  
Chairman of the Board and  
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, D. Michael Steuert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fluor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2006

By: /s/ D. Michael Steuert  
D. Michael Steuert,  
*Senior Vice President and Chief Financial Officer*

**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**

In connection with the Quarterly Report of Fluor Corporation (the "Company") on Form 10-Q for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan L. Boeckmann, Chairman and Chief Executive Officer of the Company, certify, for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2006

By: /s/ Alan L. Boeckmann

Alan L. Boeckmann,  
Chairman of the Board and  
Chief Executive Officer

*A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*

**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**

In connection with the Quarterly Report of Fluor Corporation (the "Company") on Form 10-Q for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, D. Michael Steuert, Senior Vice President and Chief Financial Officer of the Company, certify, for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2006

By: /s/ D. Michael Steuert

D. Michael Steuert,  
Senior Vice President and  
Chief Financial Officer

*A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*