

FLUOR CORP
Form 10-Q
August 03, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2017

Or

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

Commission File Number: 1-16129

FLUOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

33-0927079
(I.R.S. Employer
Identification No.)

75039
(Zip Code)

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

Edgar Filing: FLUOR CORP - Form 10-Q

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 28, 2017, 139,898,695 shares of the registrant's common stock, \$0.01 par value, were outstanding.

Table of Contents

FLUOR CORPORATION

FORM 10-Q

June 30, 2017

TABLE OF CONTENTS		PAGE
<u>Part I:</u>	<u>Financial Information</u>	
	<u>Item 1:</u>	
	<u>Financial Statements</u>	
	<u>Condensed Consolidated Statement of Earnings for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)</u>	2
	<u>Condensed Consolidated Statement of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)</u>	3
	<u>Condensed Consolidated Balance Sheet as of June 30, 2017 and December 31, 2016 (Unaudited)</u>	4
	<u>Condensed Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (Unaudited)</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
	<u>Item 2:</u>	
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
	<u>Item 3:</u>	
	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
	<u>Item 4:</u>	
	<u>Controls and Procedures</u>	39
	<u>Changes in Consolidated Backlog (Unaudited)</u>	40
<u>Part II:</u>	<u>Other Information</u>	
	<u>Item 1:</u>	
	<u>Legal Proceedings</u>	41
	<u>Item 1A:</u>	
	<u>Risk Factors</u>	41
	<u>Item 2:</u>	
	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
	<u>Item 5:</u>	
	<u>Other Information</u>	41
	<u>Item 6:</u>	
	<u>Exhibits</u>	43

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****FLUOR CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF EARNINGS**

UNAUDITED

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
TOTAL REVENUE	\$ 4,716,092	\$ 4,856,117	\$ 9,551,997	\$ 9,280,006
TOTAL COST OF REVENUE	4,684,116	4,607,868	9,370,020	8,775,935
OTHER (INCOME) AND EXPENSES				
Corporate general and administrative expense	47,315	52,640	92,363	107,753
Interest expense	16,473	18,719	34,036	33,364
Interest income	(7,863)	(4,512)	(13,898)	(7,668)
Total cost and expenses	4,740,041	4,674,715	9,482,521	8,909,384
EARNINGS (LOSS) BEFORE TAXES	(23,949)	181,402	69,476	370,622
INCOME TAX EXPENSE (BENEFIT)	(17,317)	61,348	(1,246)	131,557
NET EARNINGS (LOSS)	(6,632)	120,054	70,722	239,065
LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	17,393	18,241	34,136	32,929
NET EARNINGS (LOSS) ATTRIBUTABLE TO FLUOR CORPORATION	\$ (24,025)	\$ 101,813	\$ 36,586	\$ 206,136
BASIC EARNINGS (LOSS) PER SHARE	\$ (0.17)	\$ 0.73	\$ 0.26	\$ 1.48
DILUTED EARNINGS (LOSS) PER SHARE	\$ (0.17)	\$ 0.72	\$ 0.26	\$ 1.46
SHARES USED TO CALCULATE EARNINGS (LOSS) PER SHARE				
BASIC	139,818	139,226	139,631	139,088
DILUTED	139,818	140,801	140,856	140,833
DIVIDENDS DECLARED PER SHARE	\$ 0.21	\$ 0.21	\$ 0.42	\$ 0.42

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

UNAUDITED

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET EARNINGS (LOSS)	\$ (6,632)	\$ 120,054	\$ 70,722	\$ 239,065
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation adjustment	7,397	(38,516)	37,887	(16,180)
Ownership share of equity method investees other comprehensive income (loss)	(6,509)	8,384	1,924	366
Defined benefit pension and postretirement plan adjustments	1,517	1,208	1,910	(2,117)
Unrealized gain (loss) on derivative contracts	(1,798)	(2,681)	3,550	921
Unrealized gain (loss) on available-for-sale securities	(94)	265	(11)	1,112
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	513	(31,340)	45,260	(15,898)
COMPREHENSIVE INCOME (LOSS)	(6,119)	88,714	115,982	223,167
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	16,987	18,940	33,988	33,684
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO FLUOR CORPORATION	\$ (23,106)	\$ 69,774	\$ 81,994	\$ 189,483

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

UNAUDITED

(in thousands, except share and per share amounts)	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (\$522,603 and \$439,942 related to variable interest entities (VIEs)) \$	1,819,799	\$ 1,850,436
Marketable securities, current (\$93,965 and \$48,155 related to VIEs)	193,927	111,037
Accounts and notes receivable, net (\$205,441 and \$232,242 related to VIEs)	1,510,881	1,700,224
Contract work in progress (\$85,315 and \$124,677 related to VIEs)	1,399,220	1,537,289
Other current assets (\$23,962 and \$24,017 related to VIEs)	689,991	411,284
Total current assets	5,613,818	5,610,270
Marketable securities, noncurrent	131,126	143,553
Property, plant and equipment (PP&E) ((net of accumulated depreciation of \$1,174,737 and \$1,122,191) (net PP&E of \$47,697 and \$53,728 related to VIEs))	1,067,502	1,017,223
Goodwill	548,849	532,239
Investments	779,534	740,385
Deferred taxes	335,480	454,109
Deferred compensation trusts	372,876	348,487
Other assets (\$23,965 and \$24,248 related to VIEs)	372,623	370,151
TOTAL ASSETS	\$ 9,221,808	\$ 9,216,417
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade accounts payable (\$210,369 and \$221,601 related to VIEs)	\$ 1,527,821	\$ 1,590,506
Revolving credit facility and other borrowings	36,390	82,243
Advance billings on contracts (\$322,656 and \$263,393 related to VIEs)	1,083,679	763,774
Accrued salaries, wages and benefits (\$30,631 and \$35,573 related to VIEs)	642,069	734,649
Other accrued liabilities (\$33,706 and \$32,015 related to VIEs)	443,312	644,857
Total current liabilities	3,733,271	3,816,029
LONG-TERM DEBT DUE AFTER ONE YEAR	1,560,471	1,517,949
NONCURRENT LIABILITIES	616,931	639,608
CONTINGENCIES AND COMMITMENTS		
EQUITY		
Shareholders equity		
Capital stock		
Preferred authorized 20,000,000 shares (\$0.01 par value); none issued		
Common authorized 375,000,000 shares (\$0.01 par value); issued and outstanding 139,876,865 and 139,258,483 shares in 2017 and 2016, respectively	1,399	1,393
Additional paid-in capital	67,905	38,317
Accumulated other comprehensive loss	(451,261)	(496,669)
Retained earnings	3,559,643	3,582,150

Edgar Filing: FLUOR CORP - Form 10-Q

Total shareholders' equity	3,177,686	3,125,191
Noncontrolling interests	133,449	117,640
Total equity	3,311,135	3,242,831
TOTAL LIABILITIES AND EQUITY	\$ 9,221,808	\$ 9,216,417

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

(in thousands)	Six Months Ended	
	2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 70,722	\$ 239,065
Adjustments to reconcile net earnings to cash provided (utilized) by operating activities:		
Depreciation of fixed assets	101,921	101,390
Amortization of intangibles	9,520	7,191
(Earnings) loss from equity method investments, net of distributions	1,996	13,951
Gain on sale of property, plant and equipment	(6,985)	(10,182)
Amortization of stock-based awards	22,230	23,912
Deferred compensation trust	(24,390)	28,322
Deferred compensation obligation	19,127	10,416
Deferred taxes	76,866	23,972
Net retirement plan accrual (contributions)	(7,008)	(8,690)
Changes in operating assets and liabilities	166,628	(341,659)
Other items	(2,701)	2,856
Cash provided by operating activities	427,926	90,544
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(171,441)	(216,884)
Proceeds from the sales and maturities of marketable securities	101,026	346,486
Capital expenditures	(141,553)	(107,345)
Proceeds from disposal of property, plant and equipment	27,908	39,047
Investments in partnerships and joint ventures	(191,124)	(400,651)
Acquisitions, net of cash acquired		(240,740)
Other items	2,552	7,042
Cash utilized by investing activities	(372,632)	(573,045)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock		(9,718)
Dividends paid	(59,281)	(59,333)
Proceeds from issuance of 1.75% Senior Notes		552,958
Debt issuance costs		(3,513)
Repayment of Stork Notes and other borrowings		(332,509)
Borrowings under revolving lines of credit		883,750
Repayment of borrowings under revolving lines of credit	(53,455)	(851,594)
Distributions paid to noncontrolling interests	(21,176)	(24,327)
Capital contributions by noncontrolling interests	4,150	8,016
Taxes paid on vested restricted stock	(6,186)	(6,987)
Stock options exercised	8,296	3,144
Other items	4,501	8,554
Cash provided (utilized) by financing activities	(123,151)	168,441

Edgar Filing: FLUOR CORP - Form 10-Q

Effect of exchange rate changes on cash	37,220	(8,772)
Decrease in cash and cash equivalents	(30,637)	(322,832)
Cash and cash equivalents at beginning of period	1,850,436	1,949,886
Cash and cash equivalents at end of period	\$ 1,819,799	\$ 1,627,054

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(1) **Principles of Consolidation**

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, 2016 Annual Report on Form 10-K. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and six months ended June 30, 2017 may not necessarily be indicative of results that can be expected for the full year.

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly its consolidated financial position as of June 30, 2017 and December 31, 2016 and its consolidated results of operations and cash flows for the interim periods presented. All significant intercompany transactions of consolidated subsidiaries are eliminated. Management has evaluated all material events occurring subsequent to the date of the financial statements up to the filing date of this Form 10-Q.

The Condensed Consolidated Financial Statements include the financial statements of Stork Holding B.V. (Stork) since March 1, 2016, the date of acquisition. See Note 17 for a discussion of the acquisition.

(2) **Recent Accounting Pronouncements**

New accounting pronouncements implemented by the company during the first half of 2017 are discussed below or in the related notes, where appropriate.

In the first quarter of 2017, the company adopted Accounting Standards Update (ASU) 2016-17, *Interests Held through Related Parties That Are Under Common Control* which amends the consolidation requirements that apply to a single decision maker's evaluation of interests held through related parties that are under common control when it is determining whether it is the primary beneficiary of a variable interest entity. The adoption of ASU 2016-17 did not have any impact on the company's financial position, results of operations or cash flows.

Edgar Filing: FLUOR CORP - Form 10-Q

In the first quarter of 2017, the company adopted ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU is intended to simplify various aspects of accounting for share-based payment awards, including income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. As a result of the adoption of ASU 2016-09, the excess tax benefits and tax deficiencies associated with option exercises and vested share awards are now recognized as income tax benefit or expense in the Condensed Consolidated Statement of Earnings instead of in additional paid-in capital. Additionally, the excess tax benefits are now presented as an operating activity on the Condensed Consolidated Statement of Cash Flows, rather than as a financing activity. ASU 2016-09 also changed the method the company uses to calculate shares for diluted earnings per share (discussed further in Note 6). The company adopted the provision of ASU 2016-09 on a prospective basis; therefore, these changes were effective beginning in the first quarter of 2017. The adoption of ASU 2016-09 did not have a material impact on the company's financial position, results of operations or cash flows.

In the first quarter of 2017, the company adopted ASU 2016-07, *Simplifying the Transition to the Equity Method of Accounting* which eliminates the requirement to retrospectively apply equity method accounting when an investor obtains significant influence over a previously held investment. The adoption of ASU 2016-07 did not have any impact on the company's financial position, results of operations or cash flows.

In the first quarter of 2017, the company adopted ASU 2016-05, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This ASU clarifies that the novation of a derivative contract in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship. The adoption of ASU 2016-05 did not have any impact on the company's financial position, results of operations or cash flows.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

New accounting pronouncements requiring implementation in future periods are discussed below.

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted and prospective application is required. Management does not expect the adoption of ASU 2017-09 to have a material impact on the company's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities. For purchased callable debt securities held at a premium, ASU 2017-08 requires entities to amortize the premium to the earliest call date rather than over the contractual life of the instrument. Therefore, entities will no longer recognize a loss in earnings on the unamortized premium upon the issuer's exercise of a call. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018. Management does not expect the adoption of ASU 2017-08 to have a material impact on the company's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires employers to present the service cost component of net periodic benefit cost in the same income statement line item as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from the service cost component. ASU 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017. Management does not expect the adoption of ASU 2017-07 to have a material impact on the company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. ASU 2017-04 removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2019 and will be applied prospectively. Early adoption is permitted for interim and annual goodwill impairment testing dates after January 1, 2017. Management does not expect the adoption of ASU 2017-04 to have a material impact on the company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 is effective for interim and annual

Edgar Filing: FLUOR CORP - Form 10-Q

reporting periods beginning after December 15, 2017. Management does not expect the adoption of ASU 2017-01 to have a material impact on the company's financial position, results of operations or cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force). ASU 2016-18 requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017. Management does not expect the adoption of ASU 2016-18 to have a material impact on the company's financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 amends the guidance in Accounting Standards Codification (ASC) 230, which often requires judgment to determine the appropriate classification of cash flows as operating, investing or financing activities and has resulted in diversity in practice in how certain cash receipts and cash payments are classified. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017 and should be applied on a retrospective basis. Management does not expect the adoption of ASU 2016-15 to have a material impact on the company's cash flows.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss impairment methodology in current practice with a methodology that reflects expected credit

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Management does not expect the adoption of ASU 2016-13 to have a material impact on the company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification*, which amends the existing guidance on accounting for leases. This ASU requires the recognition of lease assets and lease liabilities on the balance sheet, and the disclosure of key information about leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Management is currently evaluating the impact of adopting ASU 2016-02 on the company's financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and to recognize any changes in fair value in net income unless the investments qualify for a practicability exception. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Management does not expect the adoption of ASU 2016-01 to have a material impact on the company's financial position, results of operations or cash flows.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price.

As a result of the deferral of the effective date in ASU 2015-14, *Revenue from Contracts with Customers - Deferral of the Effective Date*, the company will now be required to adopt ASU 2014-09 for interim and annual reporting periods beginning after December 15, 2017. ASU 2014-09 can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption.

Edgar Filing: FLUOR CORP - Form 10-Q

In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies how an entity determines whether to report revenue gross or net based on whether it controls a specific good or service before it is transferred to a customer. ASU 2016-08 also reframes the indicators to focus on evidence that an entity is acting as a principal rather than as an agent.

In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, which amends certain aspects of ASU 2014-09. ASU 2016-10 amends how an entity should identify performance obligations for immaterial promised goods or services, shipping and handling activities and promises that may represent performance obligations. ASU 2016-10 also provides implementation guidance for determining the nature of licensing and royalties arrangements.

In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which also clarifies certain aspects of ASU 2014-09 including the assessment of collectability, presentation of sales taxes, treatment of noncash consideration, and accounting for completed contracts and contract modifications at transition.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which allows an entity to determine the provision for loss contracts at either the contract level or the performance obligation level as an accounting policy election.

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

UNAUDITED

In February 2017, the FASB issued ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies that the scope and application of ASC 610-20 on accounting for the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, applies only when the asset (or asset group) does not meet the definition of a business. ASU 2017-05, 2016-20, 2016-12, 2016-10 and 2016-08 are effective upon adoption of ASU 2014-09.

Management is currently evaluating the impact of adopting ASU 2014-09, 2016-08, 2016-10, 2016-12, 2016-20 and 2017-05 on the company's financial position, results of operations, cash flows and related disclosures. Adoption of these ASUs is expected to affect the manner in which the company determines the unit of account for its projects (i.e., performance obligations). Under existing guidance, the company typically segments revenue and margin recognition between the engineering and construction phases of its contracts. Upon adoption, the company expects that the entire engineering and construction contract will typically be a single unit of account (a single performance obligation), which will result in a more constant recognition of revenue and margin over the term of the contract. The company will adopt ASU 2014-09 during the first quarter of 2018. The company expects to adopt this new standard using the modified retrospective method that will result in a cumulative effect adjustment as of the date of adoption.

(3) Other Comprehensive Income (Loss)

The tax effects of the components of other comprehensive income (loss) (OCI) for the three months ended June 30, 2017 and 2016 are as follows:

(in thousands)	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Other comprehensive income (loss):						
Foreign currency translation adjustment	\$ 12,013	\$ (4,616)	\$ 7,397	\$ (61,923)	\$ 23,407	\$ (38,516)
Ownership share of equity method investees						
other comprehensive income (loss)	(9,811)	3,302	(6,509)	13,112	(4,728)	8,384
Defined benefit pension and postretirement plan adjustments	2,428	(911)	1,517	1,933	(725)	1,208
	(2,739)	941	(1,798)	(4,337)	1,656	(2,681)

Edgar Filing: FLUOR CORP - Form 10-Q

Unrealized loss on derivative contracts							
Unrealized gain (loss) on available-for-sale securities	(151)	57	(94)	424	(159)	265	
Total other comprehensive income (loss)	1,740	(1,227)	513	(50,791)	19,451	(31,340)	
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(406)		(406)	699		699	
Other comprehensive income (loss) attributable to Fluor Corporation	\$ 2,146	\$ (1,227)	\$ 919	\$ (51,490)	\$ 19,451	\$ (32,039)	

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

UNAUDITED

The tax effects of the components of OCI for the six months ended June 30, 2017 and 2016 are as follows:

(in thousands)	Before-Tax Amount	Six Months Ended June 30, 2017 Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Six Months Ended June 30, 2016 Tax Benefit (Expense)	Net-of-Tax Amount
Other comprehensive income (loss):						
Foreign currency translation adjustment	\$ 60,671	\$ (22,784)	\$ 37,887	\$ (26,168)	\$ 9,988	\$ (16,180)
Ownership share of equity method investees other comprehensive income	3,576	(1,652)	1,924	1,020	(654)	366
Defined benefit pension and postretirement plan adjustments	3,056	(1,146)	1,910	(617)	(1,500)	(2,117)
Unrealized gain on derivative contracts	5,697	(2,147)	3,550	1,448	(527)	921
Unrealized gain (loss) on available-for-sale securities	(19)	8	(11)	1,779	(667)	1,112
Total other comprehensive income (loss)	72,981	(27,721)	45,260	(22,538)	6,640	(15,898)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(148)		(148)	755		755
Other comprehensive income (loss) attributable to Fluor Corporation	\$ 73,129	\$ (27,721)	\$ 45,408	\$ (23,293)	\$ 6,640	\$ (16,653)

The changes in accumulated other comprehensive income (AOCI) balances by component (after-tax) for the three months ended June 30, 2017 are as follows:

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

Edgar Filing: FLUOR CORP - Form 10-Q

	Comprehensive Income (Loss)		Contracts	Securities		
Attributable to Fluor Corporation:						
Balance as of March 31, 2017	\$ (256,169)	\$ (23,480)	\$ (167,274)	\$ (5,075)	\$ (182)	\$ (452,180)
Other comprehensive income (loss) before reclassifications	7,807	(6,509)		(1,619)	(89)	(410)
Amounts reclassified from AOCI			1,517	(183)	(5)	1,329
Net other comprehensive income (loss)	7,807	(6,509)	1,517	(1,802)	(94)	919
Balance as of June 30, 2017	\$ (248,362)	\$ (29,989)	\$ (165,757)	\$ (6,877)	\$ (276)	\$ (451,261)
Attributable to Noncontrolling Interests:						
Balance as of March 31, 2017	\$ (404)	\$	\$	\$ (4)	\$	\$ (408)
Other comprehensive loss before reclassifications	(410)			(2)		(412)
Amounts reclassified from AOCI				6		6
Net other comprehensive income (loss)	(410)			4		(406)
Balance as of June 30, 2017	\$ (814)	\$	\$	\$	\$	\$ (814)

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The changes in AOCI balances by component (after-tax) for the six months ended June 30, 2017 are as follows:

(in thousands)	Foreign Currency Translation	Ownership Share of Equity Method Investees Other Comprehensive Income (Loss)	Defined Benefit Pension and Postretirement Plans	Unrealized Gain (Loss) on Derivative Contracts	Unrealized Gain (Loss) on Available- for-Sale Securities	Accumulated Other Comprehensive Income (Loss), Net
Attributable to Fluor Corporation:						
Balance as of December 31, 2016	\$ (286,449)	\$ (31,913)	\$ (167,667)	\$ (10,375)	\$ (265)	\$ (496,669)
Other comprehensive income (loss) before reclassifications	38,087	1,924		3,125	(13)	43,123
Amounts reclassified from AOCI			1,910	373	2	2,285
Net other comprehensive income (loss)	38,087	1,924	1,910	3,498	(11)	45,408
Balance as of June 30, 2017	\$ (248,362)	\$ (29,989)	\$ (165,757)	\$ (6,877)	\$ (276)	\$ (451,261)
Attributable to Noncontrolling Interests:						
Balance as of December 31, 2016	\$ (614)	\$	\$	\$ (52)	\$	\$ (666)
Other comprehensive income (loss) before reclassifications	(200)			13		(187)
Amounts reclassified from AOCI				39		39
Net other comprehensive income (loss)	(200)			52		(148)
Balance as of June 30, 2017	\$ (814)	\$	\$	\$	\$	\$ (814)

The changes in AOCI balances by component (after-tax) for the three months ended June 30, 2016 are as follows:

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

Edgar Filing: FLUOR CORP - Form 10-Q

(Loss)

Attributable to Fluor Corporation:

Balance as of March 31, 2016	\$	(200,207) \$	(45,967) \$	(165,855) \$	(5,735) \$	375 \$	(417,389)
Other comprehensive income (loss) before reclassifications		(39,010)	8,384		(3,980)	325	(34,281)
Amounts reclassified from AOCI				1,208	1,094	(60)	2,242
Net other comprehensive income (loss)		(39,010)	8,384	1,208	(2,886)	265	(32,039)
Balance as of June 30, 2016	\$	(239,217) \$	(37,583) \$	(164,647) \$	(8,621) \$	640 \$	(449,428)

Attributable to Noncontrolling Interests:

Balance as of March 31, 2016	\$	(140) \$	\$	\$	(428) \$	\$	(568)
Other comprehensive income before reclassifications		494			126		620
Amounts reclassified from AOCI					79		79
Net other comprehensive income		494			205		699
Balance as of June 30, 2016	\$	354 \$	\$	\$	(223) \$	\$	131

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The changes in AOCI balances by component (after-tax) for the six months ended June 30, 2016 are as follows:

(in thousands)	Foreign Currency Translation	Ownership Share of Equity Method Investees Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Defined Benefit Pension and Postretirement Plans	Unrealized Gain (Loss) on Derivative Contracts	Unrealized Gain (Loss) on Available- for-Sale Securities	Accumulated Other Comprehensive Income (Loss), Net
Attributable to Fluor Corporation:							
Balance as of December 31, 2015	\$ (222,569)	\$	(37,949)	\$ (162,530)	\$ (9,255)	\$ (472)	(432,775)
Other comprehensive income (loss) before reclassifications	(16,648)		366	(4,617)	(2,184)	1,135	(21,948)
Amounts reclassified from AOCI				2,500	2,818	(23)	5,295
Net other comprehensive income (loss)	(16,648)		366	(2,117)	634	1,112	(16,653)
Balance as of June 30, 2016	\$ (239,217)	\$	(37,583)	\$ (164,647)	\$ (8,621)	\$ 640	(449,428)
Attributable to Noncontrolling Interests:							
Balance as of December 31, 2015	\$ (114)	\$		\$	\$ (510)	\$	(624)
Other comprehensive income before reclassifications	468				110		578
Amounts reclassified from AOCI					177		177
Net other comprehensive income	468				287		755
Balance as of June 30, 2016	\$ 354	\$		\$	\$ (223)	\$	131

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

(in thousands)	Location in Condensed Consolidated Statement of Earnings	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016

Edgar Filing: FLUOR CORP - Form 10-Q

Component of AOCI:						
Defined benefit pension plan adjustments	Various accounts(1)	\$	(2,428)	\$	(1,933)	\$ (3,056) \$ (4,000)
Income tax benefit	Income tax expense (benefit)		911		725	1,146 1,500
Net of tax		\$	(1,517)	\$	(1,208)	\$ (1,910) \$ (2,500)
Unrealized gain (loss) on derivative contracts:						
Commodity and foreign currency contracts	Total cost of revenue	\$	713	\$	(1,412)	\$ 200 \$ (3,884)
Interest rate contracts	Interest expense		(420)		(420)	(839) (839)
Income tax benefit (expense)	Income tax expense (benefit)		(116)		659	227 1,728
Net of tax			177		(1,173)	(412) (2,995)
Less: Noncontrolling interests	Net earnings attributable to noncontrolling interests		(6)		(79)	(39) (177)
Net of tax and noncontrolling interests		\$	183		(1,094)	\$ (373) (2,818)
Unrealized gain (loss) on available-for-sale securities						
Income tax benefit (expense)	Corporate general and administrative expense	\$	9	\$	95	\$ (3) \$ 36
	Income tax expense (benefit)		(4)		(35)	1 (13)
Net of tax		\$	5		60	\$ (2) \$ 23

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

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(4) **Income Taxes**

The effective tax rates for the three and six months ended June 30, 2017 were 72.3 percent and (1.8) percent, respectively, compared to 33.8 percent and 35.5 percent for the corresponding periods of 2016. The effective tax rates for the three and six months ended June 30, 2017, which represented tax benefits in both periods, benefitted from the favorable impact of a worthless stock deduction for an insolvent foreign subsidiary. The effective tax rates for the three and six months ended June 30, 2016 were unfavorably impacted by foreign losses without benefit. All periods benefitted from earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. The items above that benefitted the current year periods had a greater percentage impact on the effective tax rates due to the lower level of operating results for the three and six month periods of 2017.

The company conducts business globally and, as a result, the company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Canada, the Netherlands, South Africa, the United Kingdom and the United States. Although the company believes its reserves for its tax positions are reasonable, the final outcome of tax audits could be materially different, both favorably and unfavorably. With a few exceptions, the company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2013.

(5) **Cash Paid for Interest and Taxes**

Cash paid for interest was \$36 million and \$38 million for the six months ended June 30, 2017 and 2016, respectively. Income tax payments, net of refunds, were \$159 million and \$77 million during the six-month periods ended June 30, 2017 and 2016, respectively.

(6) **Earnings Per Share**

Diluted earnings per share (EPS) reflects the assumed exercise or conversion of all dilutive securities using the treasury stock method. As a result of the adoption of ASU 2016-09, the excess tax benefits and tax deficiencies that were previously recorded to additional paid-in capital have been excluded from the hypothetical proceeds used to calculate the repurchase of shares under the treasury stock method beginning in the first quarter of 2017.

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

UNAUDITED

The calculations of the basic and diluted EPS for the three and six months ended June 30, 2017 and 2016 are presented below:

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings (loss) attributable to Fluor Corporation	\$ (24,025)	\$ 101,813	\$ 36,586	\$ 206,136
Basic EPS attributable to Fluor Corporation:				
Weighted average common shares outstanding	139,818	139,226	139,631	139,088
Basic earnings (loss) per share	\$ (0.17)	\$ 0.73	\$ 0.26	\$ 1.48
Diluted EPS attributable to Fluor Corporation:				
Weighted average common shares outstanding	139,818	139,226	139,631	139,088
Diluted effect:				
Employee stock options, restricted stock units and shares and Value Driver Incentive units (1)		1,575	1,225	1,745
Weighted average diluted shares outstanding	139,818	140,801	140,856	140,833
Diluted earnings (loss) per share	\$ (0.17)	\$ 0.72	\$ 0.26	\$ 1.46
Anti-dilutive securities not included above	5,028	4,107	4,436	3,917

(1) Employee stock options, restricted stock units and shares, and Value Driver Incentive units of 936,000 were excluded from weighted average diluted shares outstanding for the three months ended June 30, 2017 as the shares would have an anti-dilutive effect on the net loss.

During the six months ended June 30, 2016, the company repurchased and cancelled 202,650 shares of its common stock under its stock repurchase program for approximately \$10 million. No shares were repurchased during the three and six months ended June 30, 2017, and three months ended June 30, 2016.

(7) **Fair Value Measurements**

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

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

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

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The following table presents, for each of the fair value hierarchy levels required under ASC 820-10, the company's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016:

(in thousands)	Total	June 30, 2017 Fair Value Hierarchy			Total	December 31, 2016 Fair Value Hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Cash and cash equivalents(1)	\$ 689	\$ 689	\$	\$	\$ 21,035	\$ 21,035	\$	\$
Marketable securities, current(2)	88,806		88,806		54,840		54,840	
Deferred compensation trusts(3)	37,717	37,717			37,510	37,510		
Marketable securities, noncurrent(4)	131,126		131,126		143,553		143,553	
Derivative assets(5)								
Commodity contracts	120		120		83		83	
Foreign currency contracts	29,433		29,433		34,776		34,776	
Liabilities:								
Derivative liabilities(5)								
Commodity contracts	\$	\$	\$	\$	\$ 129	\$	\$ 129	\$
Foreign currency contracts	32,241		32,241		43,574		43,574	

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

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

(3) Consists primarily of registered money market funds and an equity index fund valued at fair value. These investments, which are trading securities, represent the net asset value of the shares of such funds as of the close of business at the end of the period based on the last trade or official close of an active market or exchange.

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

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

All of the company's financial instruments carried at fair value are included in the table above. All of the above financial instruments are available-for-sale securities except for those held in the deferred compensation trusts (which are trading securities) and derivative assets and liabilities. The company has determined that there was no other-than-temporary impairment of available-for-sale securities with unrealized losses, and the company expects to recover the entire cost basis of the securities. The available-for-sale securities are made up of the following security types as of June 30, 2017: money market funds of \$1 million, U.S. agency securities of \$12 million, U.S. Treasury securities of \$80 million, corporate debt securities of \$123 million and commercial paper of \$5 million. As of December 31, 2016, available-for-sale securities consisted of money market funds of \$21 million, U.S. agency securities of \$11 million, U.S. Treasury securities of \$87 million and corporate debt securities of \$100 million. The amortized cost of these available-for-sale securities is not materially different from the fair value. During the three and six months ended June 30, 2017, proceeds from sales and maturities of available-for-sale securities were \$19 million and \$44 million, respectively, compared to \$92 million and \$214 million for the corresponding periods of 2016.

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

UNAUDITED

In addition to assets and liabilities that are measured at fair value on a recurring basis, the company is required to measure certain assets and liabilities at fair value on a nonrecurring basis. See Note 17 for further discussion of nonrecurring fair value measurements related to the company's acquisition of Stork.

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

(in thousands)	Fair Value Hierarchy	June 30, 2017		December 31, 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash(1)	Level 1	\$ 1,098,594	\$ 1,098,594	\$ 1,133,295	\$ 1,133,295
Cash equivalents(2)	Level 2	720,516	720,516	696,106	696,106
Marketable securities, current(3)	Level 2	105,121	105,121	56,197	56,197
Notes receivable, including noncurrent portion(4)	Level 3	22,309	22,309	29,458	29,458
Liabilities:					
1.750% Senior Notes(5)	Level 2	\$ 567,033	\$ 591,604	\$ 523,629	\$ 551,582
3.375% Senior Notes(5)	Level 2	496,435	518,935	496,011	512,510
3.5% Senior Notes(5)	Level 2	492,840	519,620	492,360	508,230
Revolving Credit Facility(6)	Level 2			52,735	52,735
Other borrowings, including noncurrent portion(7)	Level 2	40,553	40,553	35,457	35,457

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

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

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

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

(5) The fair value of the 1.750% Senior Notes, 3.375% Senior Notes and 3.5% Senior Notes were estimated based on quoted market prices for similar issues.

(6) Amounts represent borrowings under the company's 125 million Revolving Credit Facility which expired in April 2017, as discussed in Note 10. The carrying amount of the borrowings under this revolving credit facility approximated fair value because of the short-term maturity.

(7) Other borrowings primarily represent bank loans and other financing arrangements assumed in the acquisition of Stork. See Note 17 for a further discussion of the acquisition. The majority of these borrowings mature within one year. The carrying amounts of the borrowings under these arrangements approximate fair value because of the short-term maturity.

(8) **Derivatives and Hedging**

The company limits exposure to foreign currency fluctuations in most of its engineering and construction contracts through provisions that require client payments in currencies corresponding to the currencies in which cost is incurred. Certain financial

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

UNAUDITED

exposure, which includes currency and commodity price risk associated with engineering and construction contracts, currency risk associated with monetary assets and liabilities denominated in nonfunctional currencies and risk associated with interest rate volatility, may subject the company to earnings volatility. In cases where financial exposure is identified, the company generally implements a hedging strategy utilizing derivative instruments as hedging instruments to mitigate the risk. These hedging instruments are designated as either fair value or cash flow hedges in accordance with ASC 815, Derivatives and Hedging. The company formally documents its hedge relationships at inception, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. The company also formally assesses, both at inception and at least quarterly thereafter, whether the hedging instruments are highly effective in offsetting changes in the fair value of the hedged items. The fair values of all hedging instruments are recognized as assets or liabilities at the balance sheet date. For fair value hedges, the effective portion of the change in the fair value of the hedging instrument is offset against the change in the fair value of the underlying asset or liability through earnings. For cash flow hedges, the effective portion of the hedging instrument's gain or loss due to changes in fair value is recorded as a component of AOCI and is reclassified into earnings when the hedged item settles. Any ineffective portion of a hedging instrument's change in fair value is immediately recognized in earnings. The company does not enter into derivative instruments for speculative purposes. Under ASC 815, in certain limited circumstances, foreign currency payment provisions could be deemed embedded derivatives. If an embedded foreign currency derivative is identified, the derivative is bifurcated from the host contract and the change in fair value is recognized through earnings. The company maintains master netting arrangements with certain counterparties to facilitate the settlement of derivative instruments; however, the company reports the fair value of derivative instruments on a gross basis.

As of June 30, 2017, the company had total gross notional amounts of approximately \$952 million of foreign currency contracts (primarily related to the British Pound, Kuwaiti Dinar, Indian Rupee, Philippine Peso and South Korean Won) and \$0.4 million of commodity contracts outstanding related to hedging of engineering and construction contract obligations and monetary assets and liabilities denominated in nonfunctional currencies. The foreign currency contracts are of varying duration, none of which extend beyond December 2019. The commodity contracts are of varying duration, none of which extend beyond December 2017. The impact to earnings due to hedge ineffectiveness was immaterial for the three and six months ended June 30, 2017 and 2016.

The fair values of derivatives designated as hedging instruments under ASC 815 as of June 30, 2017 and December 31, 2016 were as follows:

(in thousands)	Balance Sheet Location	Asset Derivatives		Balance Sheet Location	Liability Derivatives	
		June 30, 2017	December 31, 2016		June 30, 2017	December 31, 2016
Commodity contracts	Other current assets	\$ 120	\$ 83	Other accrued liabilities	\$	\$ 129
Foreign currency contracts	Other current assets	15,524	13,231	Other accrued liabilities	13,577	16,543
Foreign currency contracts	Other assets	13,909	21,545	Noncurrent liabilities	18,664	27,031
Total		\$ 29,553	\$ 34,859		\$ 32,241	\$ 43,703

Edgar Filing: FLUOR CORP - Form 10-Q

The pre-tax net gains (losses) recognized in earnings associated with the hedging instruments designated as fair value hedges for the three and six months ended June 30, 2017 and 2016 were as follows:

Fair Value Hedges (in thousands)	Location of Gain (Loss)	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Foreign currency contracts	Corporate general and administrative expense	\$ 1,158	\$ (1,521)	\$ 4,105	\$ (1,326)

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

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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

Cash Flow Hedges (in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Commodity contracts	\$ (11)	\$ 298	\$ (8)	\$ 300
Foreign currency contracts	(1,608)	(4,278)	3,133	(2,484)
Total	\$ (1,619)	\$ (3,980)	\$ 3,125	\$ (2,184)

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

Cash Flow Hedges (in thousands)	Location of Gain (Loss)	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Commodity contracts	Total cost of revenue	\$ (2)	\$ (57)	\$ (36)	\$ (177)
Foreign currency contracts	Total cost of revenue	447	(775)	187	(2,117)
Interest rate contracts	Interest expense	(262)	(262)	(524)	(524)
Total		\$ 183	\$ (1,094)	\$ (373)	\$ (2,818)

As of June 30, 2016, the company also had total gross notional amounts of \$8 million of foreign currency contracts and \$2 million of commodity contracts outstanding that were not designated as hedging instruments. These contracts primarily related to engineering and construction and operations and maintenance contract obligations denominated in nonfunctional currencies. Recognized gains of approximately \$3 million and \$0.3 million associated with these contracts were included in Cost of Revenues for the three and six months ended June 30, 2016, respectively. There were no similar contracts of significance as of June 30, 2017.

(9) **Retirement Benefits**

Net periodic pension expense for the company's defined benefit pension plans included the following components:

Three Months Ended

Six Months Ended

Edgar Filing: FLUOR CORP - Form 10-Q

(in thousands)	June 30,		June 30,	
	2017	2016	2017	2016
Service cost	\$ 4,519	\$ 5,014	\$ 8,913	\$ 9,746
Interest cost	5,457	6,899	10,750	13,520
Expected return on assets	(9,893)	(10,258)	(19,484)	(20,309)
Amortization of prior service cost	(203)	(198)	(398)	(407)
Recognized net actuarial loss	2,977	2,130	3,808	4,406
Net periodic pension expense	\$ 2,857	\$ 3,587	\$ 3,589	\$ 6,956

The company currently expects to contribute up to \$20 million into its defined benefit pension plans during 2017, which is expected to be in excess of the minimum funding required. During the six months ended June 30, 2017, contributions of approximately \$11 million were made by the company.

(10) **Financing Arrangements**

As of June 30, 2017, the company had a combination of committed and uncommitted lines of credit that may be used for revolving loans and letters of credit. As of June 30, 2017, letters of credit and borrowings totaling \$1.8 billion were outstanding under these committed and uncommitted lines of credit. The committed lines of credit include a \$1.7 billion Revolving Loan and Letter of Credit Facility and a \$1.8 billion Revolving Loan and Letter of Credit Facility. Both facilities mature in February

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

2022. The company may utilize up to \$1.75 billion in the aggregate of the combined \$3.5 billion committed lines of credit for revolving loans, which may be used for acquisitions and/or general purposes. Each of the credit facilities may be increased up to an additional \$500 million subject to certain conditions, and contains customary financial and restrictive covenants, including a maximum ratio of consolidated debt to tangible net worth of one-to-one and a cap on the aggregate amount of debt of the greater of \$750 million or 750 million for the company's subsidiaries. Borrowings under both facilities, which may be denominated in USD, EUR, GBP or CAD, bear interest at rates based on the Eurodollar Rate or an alternative base rate, plus an applicable borrowing margin.

In connection with the Stork acquisition, the company assumed a 110 million Super Senior Revolving Credit Facility that bore interest at EURIBOR plus 3.75%. In April 2016, the company repaid and replaced the 110 million Super Senior Revolving Credit Facility with a 125 million Revolving Credit Facility which was used for revolving loans, bank guarantees, letters of credit and to fund working capital in the ordinary course of business. This replacement facility, which bore interest at EURIBOR plus .75%, expired in April 2017.

Letters of credit are provided in the ordinary course of business primarily to indemnify the company's clients if the company fails to perform its obligations under its contracts. Surety bonds may be used as an alternative to letters of credit.

In March 2016, the company issued 500 million of 1.750% Senior Notes (the 2016 Notes) due March 21, 2023 and received proceeds of 497 million (or approximately \$551 million), net of underwriting discounts. Interest on the 2016 Notes is payable annually on March 21 of each year, beginning on March 21, 2017. Prior to December 21, 2022, the company may redeem the 2016 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture. On or after December 21, 2022, the company may redeem the 2016 Notes at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption. Additionally, the company may redeem the 2016 Notes at any time upon the occurrence of certain changes in U.S. tax laws, as described in the indenture, at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption.

In November 2014, the company issued \$500 million of 3.5% Senior Notes (the 2014 Notes) due December 15, 2024 and received proceeds of \$491 million, net of underwriting discounts. Interest on the 2014 Notes is payable semi-annually on June 15 and December 15 of each year, and began on June 15, 2015. Prior to September 15, 2024, the company may redeem the 2014 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture. On or after September 15, 2024, the company may redeem the 2014 Notes at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption.

In September 2011, the company issued \$500 million of 3.375% Senior Notes (the 2011 Notes) due September 15, 2021 and received proceeds of \$492 million, net of underwriting discounts. Interest on the 2011 Notes is payable semi-annually on March 15 and September 15 of each year,

Edgar Filing: FLUOR CORP - Form 10-Q

and began on March 15, 2012. The company may, at any time, redeem the 2011 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture.

For the 2016 Notes, the 2014 Notes and the 2011 Notes, if a change of control triggering event occurs, as defined by the terms of the respective indentures, the company will be required to offer to purchase the applicable notes at a purchase price equal to 101 percent of their principal amount, plus accrued and unpaid interest, if any, to the date of redemption. The company is generally not limited under the indentures governing the 2016 Notes, the 2014 Notes and the 2011 Notes in its ability to incur additional indebtedness provided the company is in compliance with certain restrictive covenants, including restrictions on liens and restrictions on sale and leaseback transactions. We may, from time to time, repurchase the 2016 Notes, the 2014 Notes or the 2011 Notes in the open market, in privately-negotiated transactions or otherwise in such volumes, at such prices and upon such other terms as we deem appropriate.

In conjunction with the acquisition of Stork on March 1, 2016, the company assumed Stork's outstanding debt obligations, including its 11.0% Super Senior Notes due 2017 (the Stork Notes), borrowings under the \$110 million Super Senior Revolving Credit Facility, and other debt obligations. On March 2, 2016, the company gave notice to all holders of the Stork Notes of the full redemption of the outstanding \$273 million (or approximately \$296 million) principal amount of Stork Notes plus a redemption premium of \$7 million (or approximately \$8 million) effective March 17, 2016. The redemption of the Stork

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Notes was initially funded with additional borrowings under the company's \$1.7 billion Revolving Loan and Letter of Credit Facility, which borrowings were subsequently repaid from the net proceeds of the 2016 Notes. Certain other outstanding debt obligations assumed in the Stork acquisition of \$20 million (or approximately \$22 million) were settled in March 2016. See Note 17 for a further discussion of the acquisition.

Other borrowings of \$41 million as of June 30, 2017 and \$35 million as of December 31, 2016 primarily represent bank loans and other financing arrangements assumed in the acquisition of Stork, exclusive of the Stork Notes.

As of June 30, 2017, the company was in compliance with all of the financial covenants related to its debt agreements.

(11) **Stock-Based Plans**

The company's executive and director stock-based compensation plans are described, and informational disclosures are provided, in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2016. In the first half of 2017 and 2016, restricted stock units totaling 402,783 and 553,415, respectively, were granted to executives and directors, at weighted-average grant date fair values of \$52.57 per share and \$43.77 per share, respectively. Restricted stock units granted to executives in 2017 and 2016 generally vest ratably over three years. Restricted stock units granted to directors in 2017 and 2016 generally vest on the first anniversary of the grant. For directors and certain executives, restricted stock units are subject to a post-vest holding period of three years. The fair value of restricted stock units represents the closing price of the company's common stock on the date of grant discounted for the post-vest holding period, when applicable.

During the first half of 2017 and 2016, stock options for the purchase of 1,103,817 shares at a weighted-average exercise price of \$55.35 per share and 662,001 shares at a weighted-average exercise price of \$46.07 per share, respectively, were awarded to executives. The exercise price of options represents the closing price of the company's common stock on the date of grant. The options granted in 2017 and 2016 vest ratably over three years and expire ten years after the grant date.

In the first half of 2017 and 2016, performance-based Value Driver Incentive (VDI) units totaling 249,204 and 296,052, respectively, were awarded to executives. These awards vest after a period of approximately three years and contain annual performance conditions for each of the three years of the vesting period. The performance targets for each year are generally established in the first quarter of that year. Under ASC 718, performance-based awards are not deemed granted for accounting purposes until the performance targets have been established. Accordingly, only one-third of the units awarded in any given year are deemed to be granted each year of the three year vesting period. During

the first half of 2017, units totaling 83,068 and 92,094 under the 2017 and 2016 VDI plans, respectively, were granted at weighted-average grant date fair values of \$53.35 per share and \$51.62 per share, respectively. The grant date fair value is determined by adjusting the closing price of the company's common stock on the date of grant for the post-vest holding period discount and for the effect of the market condition, when applicable. For awards granted under the 2017 VDI plan, the number of units will be adjusted at the end of each performance period based on achievement of certain performance targets and market conditions, as defined in the VDI award agreement. For awards granted under the 2016 VDI plan, the number of units is adjusted at the end of each performance period based only on the achievement of certain performance targets as defined in the VDI award agreement. Units granted under the 2017 and 2016 VDI plans can only be settled in company stock and are accounted for as equity awards in accordance with ASC 718.

(12) **Noncontrolling Interests**

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

As required by ASC 810-10-45, the company has separately disclosed on the face of the Condensed Consolidated Statement of Earnings for all periods presented the amount of net earnings attributable to the company and the amount of net earnings attributable to noncontrolling interests. For the three and six months ended June 30, 2017, net earnings attributable to noncontrolling interests were \$17 million and \$34 million, respectively. For the three and six months ended June 30, 2016, net earnings attributable to noncontrolling interests were \$18 million and \$33 million, respectively. Income taxes associated with

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

earnings attributable to noncontrolling interests were immaterial in both periods presented. Distributions paid to noncontrolling interests were \$21 million and \$24 million for the six months ended June 30, 2017 and 2016, respectively. Capital contributions by noncontrolling interests were \$4 million and \$8 million for the six months ended June 30, 2017 and 2016, respectively.

(13) **Contingencies and Commitments**

The company and certain of its subsidiaries are subject to litigation, claims and other commitments and contingencies arising in the ordinary course of business. Although the asserted value of these matters may be significant, the company currently does not expect that the ultimate resolution of any open matters will have a material adverse effect on its consolidated financial position or results of operations.

Fluor Australia Ltd., a wholly-owned subsidiary of the company (Fluor Australia), completed cost reimbursable engineering, procurement and construction management services for Santos Ltd. (Santos) on a large network of natural gas gathering and processing facilities in Queensland, Australia. On December 13, 2016, Santos filed an action in Queensland Supreme Court against Fluor Australia, asserting various causes of action and seeking damages of approximately AUD \$1.47 billion. The company believes that the claims asserted by Santos are without merit and is vigorously defending these claims. Based upon the present status of this matter, the company does not believe it is probable that a loss will be incurred. Accordingly, the company has not recorded a charge as a result of this action.

Other Matters

The company has made claims arising from the performance under its contracts. The company recognizes revenue, but not profit, for certain claims (including change orders in dispute and unapproved change orders in regard to both scope and price) when it is determined that recovery of incurred costs is probable and the amounts can be reliably estimated. Under claims accounting (ASC 605-35-25), these requirements are satisfied when (a) the contract or other evidence provides a legal basis for the claim, (b) additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in the company's performance, (c) claim-related costs are identifiable and considered reasonable in view of the work performed, and (d) evidence supporting the claim is objective and verifiable. Similarly, the company recognizes disputed back charges to suppliers or subcontractors as a reduction of cost when the same requirements have been satisfied. The company periodically evaluates its positions and the amounts recognized with respect to all its claims and back charges. As of June 30, 2017 and December 31, 2016, the company had recorded \$75 million and \$61 million, respectively, of claim revenue for costs incurred to date and such costs are included in contract work in progress. Additional costs, which will increase the claim revenue balance over time, are expected to be incurred in future periods. The company had also recorded disputed back charges totaling \$41 million as of both June 30, 2017 and December 31, 2016. The company believes the ultimate recovery of amounts related to these claims and back charges is probable in accordance with ASC 605-35-25.

From time to time, the company enters into significant contracts with the U.S. government and its agencies. Government contracts are subject to audits and investigations by government representatives with respect to the company's compliance with various restrictions and regulations applicable to government contractors, including but not limited to the allowability of costs incurred under reimbursable contracts. In connection with performing government contracts, the company maintains reserves for estimated exposures associated with these matters.

(14) **Guarantees**

In the ordinary course of business, the company enters into various agreements providing performance assurances and guarantees to clients on behalf of certain unconsolidated and consolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The performance guarantees have various expiration dates ranging from mechanical completion of the project being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential amount of future payments that the company could be required to make under outstanding performance guarantees, which represents the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts, was estimated to be \$14 billion as of June 30, 2017. Amounts that may be required to be paid in excess of estimated cost to complete contracts in progress are not estimable. For cost reimbursable contracts, amounts that may become payable pursuant to guarantee provisions are normally

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

recoverable from the client for work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee amount is the cost to complete the contracted work, less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract, the company may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors for claims. The company assessed its performance guarantee obligation as of June 30, 2017 and December 31, 2016 in accordance with ASC 460, Guarantees, and the carrying value of the liability was not material.

Financial guarantees, made in the ordinary course of business in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. These arrangements generally require the borrower to pledge collateral to support the fulfillment of the borrower's obligation.

(15) **Partnerships and Joint Ventures**

In the normal course of business, the company forms partnerships or joint ventures primarily for the execution of single contracts or projects. The majority of these partnerships or joint ventures are characterized by a 50 percent or less, noncontrolling ownership or participation interest, with decision making and distribution of expected gains and losses typically being proportionate to the ownership or participation interest. Many of the partnership and joint venture agreements provide for capital calls to fund operations, as necessary. Accounts receivable related to work performed for unconsolidated partnerships and joint ventures included in Accounts and notes receivable, net on the Condensed Consolidated Balance Sheet were \$114 million and \$392 million as of June 30, 2017 and December 31, 2016, respectively. The decrease in this receivable balance in 2017 resulted primarily from one Energy, Chemicals & Mining joint venture project in the United States. Notes receivable from unconsolidated partnerships and joint ventures included in Accounts and notes receivable, net and Other assets on the Condensed Consolidated Balance Sheet were \$16 million and \$19 million as of June 30, 2017 and December 31, 2016, respectively.

For unconsolidated partnerships and joint ventures in the construction industry, the company generally recognizes its proportionate share of revenue, cost and profit in its Condensed Consolidated Statement of Earnings and uses the one-line equity method of accounting on the Condensed Consolidated Balance Sheet, which is a common application of ASC 810-10-45-14 in the construction industry. The equity method of accounting is also used for other investments in entities where the company has significant influence. The company's investments in unconsolidated partnerships and joint ventures accounted for under these methods amounted to \$636 million and \$454 million as of June 30, 2017 and December 31, 2016, respectively, and were classified under Investments and Other accrued liabilities on the Condensed Consolidated Balance Sheet.

In February 2016, the company made an initial cash investment of \$350 million in COOEC Fluor Heavy Industries Co., Ltd. (CFHI), a joint venture in which the company has a 49% ownership interest and Offshore Oil Engineering Co., Ltd., a subsidiary of China National Offshore Oil Corporation, has 51% ownership interest. Through CFHI, the two companies own, operate and manage the Zhuhai Fabrication Yard in China's Guangdong province. The company made an additional investment of \$62 million in the third quarter of 2016 and has a future funding commitment of \$78 million.

Variable Interest Entities

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

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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

The net carrying value of the unconsolidated VIEs classified under Investments and Other accrued liabilities on the Condensed Consolidated Balance Sheet was a net asset of \$172 million as of June 30, 2017 and a net liability of \$9 million as of December 31, 2016. Some of the company's VIEs have debt; however, such debt is typically non-recourse in nature. The company's maximum exposure to loss as a result of its investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding necessary to satisfy the contractual obligations of the VIE. Future funding commitments as of June 30, 2017 for the unconsolidated VIEs were \$43 million.

In some cases, the company is required to consolidate certain VIEs. As of June 30, 2017, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were \$1.0 billion and \$603 million, respectively. As of December 31, 2016, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were \$959 million and \$566 million, respectively. The assets of a VIE are restricted for use only for the particular VIE and are not available for general operations of the company.

The company has agreements with certain VIEs to provide financial or performance assurances to clients. See Note 14 for a further discussion of such agreements. A discussion of some of the company's more significant or unique VIEs is provided in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2016.

(16) **Operating Information by Segment**

A description of the company's reportable segments is provided in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2016. During the first quarter of 2017, the company changed the name of the Maintenance, Modification & Asset Integrity segment to Diversified Services. The company reports its operating results in the following four reportable segments: Energy, Chemicals & Mining; Industrial, Infrastructure & Power; Government; and Diversified Services.

Edgar Filing: FLUOR CORP - Form 10-Q

Operating information by reportable segment is as follows:

External Revenue (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Energy, Chemicals & Mining	\$ 2,304.0	\$ 2,476.4	\$ 4,606.2	\$ 4,919.9
Industrial, Infrastructure & Power	1,026.5	1,010.0	2,225.8	1,843.3
Government	744.2	657.9	1,509.4	1,343.9
Diversified Services	641.4	711.8	1,210.6	1,172.9
Total external revenue	\$ 4,716.1	\$ 4,856.1	\$ 9,552.0	\$ 9,280.0

Intercompany revenue for the Diversified Services segment, excluded from the amounts shown above, was \$155 million and \$301 million for the three and six months ended June 30, 2017, respectively, and \$123 million and \$240 million for the three and six months ended June 30, 2016, respectively.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Segment profit is an earnings measure that the company utilizes to evaluate and manage its business performance. Segment profit is calculated as revenue less cost of revenue and earnings attributable to noncontrolling interests excluding: corporate general and administrative expense; interest expense; interest income; domestic and foreign income taxes; and other non-operating income and expense items.

Segment Profit (Loss) (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Energy, Chemicals & Mining	\$ 126.6	\$ 125.5	\$ 214.9	\$ 307.5
Industrial, Infrastructure & Power	(168.0)	51.4	(174.7)	63.3
Government	19.7	22.0	48.7	39.1
Diversified Services	36.3	31.1	59.0	61.2
Total segment profit	\$ 14.6	\$ 230.0	\$ 147.9	\$ 471.1

Segment profit in the Industrial, Infrastructure & Power segment for the three and six months ended June 30, 2017 was adversely affected by pre-tax charges totaling \$194 million (or \$0.89 per diluted share) and \$219 million (or \$0.99 per diluted share), respectively, resulting from forecast revisions for estimated cost growth at three fixed-price, gas-fired power plant projects in the southeastern United States.

Segment profit in the Industrial, Infrastructure & Power segment for the three and six months ended June 30, 2017 and 2016 included the operations of NuScale, which are primarily research and development activities associated with the licensing and commercialization of small modular nuclear reactor technology. NuScale expenses included in the determination of segment profit were \$17 million and \$33 million for the three and six months ended June 30, 2017, respectively, and \$22 million and \$48 million for the three and six months ended June 30, 2016, respectively. NuScale expenses were net of qualified reimbursable expenses of \$10 million and \$20 million for the three and six month periods of 2017, respectively, and \$17 million and \$31 million for the three and six months periods of 2016, respectively. A discussion of the cooperative agreement between NuScale and the U.S. Department of Energy is provided in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2016.

A reconciliation of total segment profit to earnings (loss) before taxes is as follows:

Reconciliation of Total Segment Profit to Earnings (Loss) Before Taxes (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total segment profit	\$ 14.6	\$ 230.0	\$ 147.9	\$ 471.1

Edgar Filing: FLUOR CORP - Form 10-Q

Corporate general and administrative expense	(47.3)	(52.6)	(92.4)	(107.7)
Interest income (expense), net	(8.6)	(14.2)	(20.1)	(25.7)
Earnings attributable to noncontrolling interests	17.4	18.2	34.1	32.9
Earnings (loss) before taxes	\$ (23.9)	\$ 181.4	\$ 69.5	\$ 370.6

Total assets by segment are as follows:

Total Assets by Segment (in millions)	June 30, 2017	December 31, 2016
Energy, Chemicals & Mining	\$ 1,995.2	\$ 2,348.0
Industrial, Infrastructure & Power	808.9	750.1
Government	461.3	493.7
Diversified Services	2,080.5	1,952.7

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The decrease in total assets in the Energy, Chemicals & Mining segment resulted from decreased working capital in support of project execution activities. The increase in total assets in the Industrial, Infrastructure & Power and Diversified Services segments resulted from increased working capital in support of project execution activities.

Total assets in the Industrial, Infrastructure & Power segment as of June 30, 2017 included accounts receivable and contract work in progress related to two subcontracts with Westinghouse Electric Company LLC (Westinghouse) to manage the construction workforce at nuclear power plant projects in Georgia (Plant Vogtle) and South Carolina (V.C. Summer). On March 29, 2017 (the bankruptcy petition date), Westinghouse filed for Chapter 11 bankruptcy protection in the U.S. Bankruptcy Court, Southern District of New York.

The company has filed mechanic s liens in Georgia and South Carolina against the property of the owners of the projects for amounts due for pre-petition services rendered to Westinghouse.

On July 31, 2017, the V.C. Summer project was cancelled by the owner of the project and the company is demobilizing from the site. The company continues to provide services to the Plant Vogtle project site at the request of the owner of the project. Based on agreements with the owners of both projects, the company has been compensated by the owners for certain pre-petition services rendered to Westinghouse, and continues to be compensated for post-petition services. In addition to amounts due for post-petition services, total assets as of June 30, 2017 included amounts due of \$59 million and \$14 million for services provided to V.C. Summer and Plant Vogtle, respectively, prior to the date of the bankruptcy petition. Based on the company s evaluation of available information, the company expects the amounts outstanding for pre-petition services to be recoverable.

(17) **Acquisition of Stork Holding B.V.**

On March 1, 2016 (the acquisition date), the company acquired 100 percent of Stork for an aggregate purchase price of 695 million (or approximately \$756 million), including the assumption of debt and other liabilities. Stork, based in the Netherlands, is a global provider of maintenance, modification and asset integrity services associated with large existing industrial facilities in the oil and gas, chemicals, petrochemicals, industrial and power markets. The company paid 276 million (or approximately \$300 million) in cash consideration. The company borrowed 200 million (or approximately \$217 million) under its \$1.7 billion Revolving Loan and Letter of Credit Facility, and paid 76 million (or approximately \$83 million) of cash on hand to initially finance the Stork acquisition. The 200 million borrowed under the \$1.7 billion Revolving Loan and Letter of Credit Facility was subsequently repaid from the net proceeds of the 2016 Notes as discussed in Note 10.

In conjunction with the acquisition, the company assumed Stork's outstanding debt obligations, including the Stork Notes, borrowings under a \$110 million Super Senior Revolving Credit Facility, and other debt obligations. On March 2, 2016, the company gave notice to all holders of the Stork Notes of the full redemption of the outstanding \$273 million (or approximately \$296 million) principal amount of Stork Notes plus a redemption premium of \$7 million (or approximately \$8 million) effective March 17, 2016. The redemption of the Stork Notes was initially funded with additional borrowings under the company's \$1.7 billion Revolving Loan and Letter of Credit Facility, which borrowings were subsequently repaid from the net proceeds of the 2016 Notes. Certain other outstanding debt obligations assumed in the Stork acquisition of \$20 million (or approximately \$22 million) were settled in March 2016. In April 2016, the company repaid and replaced the \$110 million Super Senior Revolving Credit Facility with a \$125 million Revolving Credit Facility that was available to fund working capital in the ordinary course of business. This replacement facility, which bore interest at EURIBOR plus .75%, expired in April 2017.

The company completed its valuation of Stork's assets and liabilities at the end of 2016. The aggregate purchase price noted above was allocated to the major categories of assets acquired and liabilities assumed based upon their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired, totaling \$384 million (or approximately \$417 million), was recorded as goodwill.

The fair value of acquired intangible assets, which consisted primarily of customer relationships and trade names, as well as below market contracts and leases were determined using income-based approaches that utilized unobservable Level 3 inputs, including significant management assumptions such as forecasted revenue and operating margins, customer attrition, and weighted average cost of capital. Customer relationships are being amortized on a straight-line basis over their estimated useful lives of 8 years. Acquired trade names with finite lives are being amortized on a straight-line basis over their estimated useful lives, ranging from 2 to 15 years. Trade names with indefinite lives are not amortized, but are subject to annual impairment testing.

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

UNAUDITED

The fair value of property, plant and equipment was determined using a cost-based approach that considers the estimated reproductive cost of the assets adjusted for depreciation factors, which include physical deterioration and functional or economic obsolescence. This approach uses Level 3 inputs that are generally unobservable in the marketplace. A market-based approach was also applied as a secondary method to estimate the fair value of certain assets. The market-based approach utilized observable Level 2 inputs for similar assets in active markets.

Goodwill represents the excess of the purchase price over the fair value of the underlying net assets acquired. Factors contributing to the goodwill balance include the acquired established workforce and the estimated future synergies associated with the combined operations. Of the total goodwill recorded in conjunction with the Stork acquisition, none is expected to be deductible for tax purposes. The goodwill recognized in conjunction with the Stork acquisition has been reported in the Diversified Services segment.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the acquisition date:

(in thousands)	In EUR	In USD
Cash and cash equivalents	54,441	\$ 59,204
Accounts and notes receivable	167,894	182,585
Contract work in progress	96,667	105,125
Other current assets	51,065	55,533
Property, plant and equipment	162,525	176,746
Investments	1,487	1,617
Intangible assets	171,000	185,963
Goodwill	383,734	417,310
Deferred taxes, net	9,867	10,730
Other assets	900	979
Trade accounts payable	(113,898)	(123,864)
Advance billings on contracts	(21,364)	(23,234)
Other accrued liabilities	(205,034)	(222,975)
Revolving credit facility and other borrowings	(400,228)	(435,248)
Long-term debt	(15,295)	(16,633)
Noncurrent liabilities	(65,001)	(70,689)
Noncontrolling interests	(2,947)	(3,205)
Net assets acquired	275,813	\$ 299,944

Since the acquisition date, revenue and earnings from Stork of \$391 million and \$4 million for the three months ended June 30, 2016, respectively, and \$512 million and \$7 million for the six months ended June 30, 2016, respectively, were included in the Condensed Consolidated Statement of Earnings. Integration costs of \$5 million and \$11 million for the three and six months ended June 30, 2016, respectively, and transaction costs of \$1 million and \$11 million for the three and six months ended June 30, 2016, respectively, were included

in corporate general and administrative expense.

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

UNAUDITED

The following pro forma financial information reflects the company's consolidated operating results as if the Stork acquisition had occurred on January 1, 2015 and includes adjustments for debt refinancing and transaction costs.

(in thousands)	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
Pro forma revenue	\$	4,861,781	\$	9,518,718
Pro forma net earnings attributable to Fluor Corporation		105,342		210,880

Table of Contents

FLUOR CORPORATION

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

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and notes and the company's December 31, 2016 Annual Report on Form 10-K. For purposes of reviewing this document, segment profit is calculated as revenue less cost of revenue and earnings attributable to noncontrolling interests excluding: corporate general and administrative expense; interest expense; interest income; domestic and foreign income taxes; and other non-operating income and expense items.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made herein, including statements regarding the company's projected revenue and earnings levels, cash flow and liquidity, new awards and backlog levels and the implementation of strategic initiatives are forward-looking in nature. We wish to caution readers that forward-looking statements, including disclosures which use words such as the company believes, anticipates, expects, estimates and similar statements are subject to various risks and uncertainties which could cause actual results of operations to differ materially from expectations. Factors potentially contributing to such differences include, among others:

- The cyclical nature of many of the markets the company serves, including our commodity-based business lines, and our vulnerability to downturns;
- The company's failure to receive anticipated new contract awards and the related impact on revenue, earnings, staffing levels and cost;
- Difficulties or delays incurred in the execution of contracts, or failure to accurately estimate the resources and time necessary for our contracts, resulting in cost overruns or liabilities, including those caused by the performance of our clients, subcontractors, suppliers and joint venture or teaming partners;
- Project cancellations, scope adjustments or deferrals, or foreign currency fluctuations, that could reduce the amount of our backlog and the revenue and profits that the company earns;
- Intense competition in the global engineering, procurement and construction industry, which can place downward pressure on our contract prices and profit margins;
- Current economic conditions affecting our clients, partners, subcontractors and suppliers, which may result in decreased capital investment or expenditures, or a failure to make anticipated increased capital investment or expenditures, by the company's clients or other financial difficulties by our partners, subcontractors or suppliers;
- Changes in global business, economic (including currency risk), political and social conditions;

- Civil unrest, security issues, labor conditions and other unforeseeable events in the countries in which we do business, resulting in unanticipated losses;
- Failure of our joint venture partners to perform their venture obligations, which could impact the success of those ventures and impose additional financial and performance obligations on us, resulting in reduced profits or losses;
- Cybersecurity breaches of our systems and information technology;
- Failure to obtain favorable results in existing or future litigation or dispute resolution proceedings (including claims for indemnification), or claims against project owners, subcontractors or suppliers;
- Client delays or defaults in making payments;
- Failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases, losses on projects;
- Liabilities arising from faulty services that could result in significant professional or product liability, warranty or other claims;
- Failure of our suppliers or subcontractors to provide supplies or services at the agreed-upon levels or times;
- Repercussions of events beyond our control, such as severe weather conditions, that may significantly affect operations, result in higher cost or subject the company to liability claims by our clients;
- Client cancellations of, or scope adjustments to, existing contracts and the related impacts on staffing levels and cost;
- Failure of our employees, agents or partners to comply with laws, which could result in harm to our reputation and reduced profits or losses;
- The potential impact of certain tax matters including, but not limited to, those from foreign operations and the ongoing audits by tax authorities;
- Possible systems and information technology interruptions or the failure to adequately protect intellectual property rights;
- The impact of anti-bribery and international trade laws and regulations;

Table of Contents

- The impact of new or changing legal requirements, as well as past and future environmental, health and safety regulations including climate change regulations;
- The failure to be adequately indemnified for our nuclear services;
- Foreign exchange risks;
- The inability to hire and retain qualified personnel;
- Failure to maintain safe work sites;
- The availability of credit and restrictions imposed by credit facilities, both for the company and our clients, suppliers, subcontractors or other partners;
- Possible limitations of bonding or letter of credit capacity;
- The risks associated with acquisitions, dispositions or other investments, including the failure to successfully integrate acquired businesses;
- The company's ability to secure appropriate insurance;
- Restrictions on possible transactions imposed by our charter documents and Delaware law.

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

Due to known and unknown risks, the company's actual results may differ materially from its expectations or projections. While most risks affect only future cost or revenue anticipated by the company, some risks may relate to accruals that have already been reflected in earnings. The company's failure to receive payments of accrued amounts or incurrence of liabilities in excess of amounts previously recognized could result in a charge against future earnings. As a result, the reader is cautioned to recognize and consider the inherently uncertain nature of forward-looking statements and not to place undue reliance on them.

Additional information concerning these and other factors can be found in the company's press releases and periodic filings with the Securities and Exchange Commission, including the discussion under the heading "Item 1A. Risk Factors" in the company's Form 10-K filed February 17, 2017. These filings are available publicly on the SEC's website at <http://www.sec.gov>, on the company's website at <http://investor.fluor.com> or upon request from the company's Investor Relations Department at (469) 398-7070. The company cannot control such risk factors and other uncertainties, and in many cases, cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements. These risks and uncertainties should be considered when evaluating the company and deciding whether to invest in its securities. Except as otherwise required by law, the company undertakes no obligation to publicly update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

Summary

Consolidated revenue of \$4.7 billion for the three months ended June 30, 2017 decreased 3 percent compared to \$4.9 billion for the three months ended June 30, 2016. During the three month period, revenue declines in the Energy, Chemicals & Mining and Diversified Services segments were partially offset by revenue increases in the Government segment. Consolidated revenue of \$9.6 billion for the six months ended June 30, 2017 increased 3 percent compared to \$9.3 billion for the six months ended June 30, 2016. During the six month period, revenue growth in the Industrial, Infrastructure & Power and Government segments were partially offset by revenue declines in the Energy, Chemicals & Mining segment. The revenue growth during the six month period resulted primarily from increased project execution activities for several life sciences and advanced manufacturing projects, two nuclear power plant projects for Westinghouse Electric Company LLC (Westinghouse) and an environmental cleanup project for the U.S. government. Revenue in the Energy, Chemicals & Mining segment decreased in both of the current year periods primarily due to reduced volume of project execution activities for certain chemicals projects nearing completion and delays in the startup of awarded projects at the company s joint venture in Mexico.

The net loss attributable to Fluor Corporation was \$24 million for the three months ended June 30, 2017 compared to net earnings attributable to Fluor Corporation of \$102 million for the prior year period. Net earnings attributable to Fluor Corporation were \$37 million for the six months ended June 30, 2017 compared to \$206 million corresponding period of 2016. Earnings for the three and six months ended June 30, 2017 were adversely affected by charges totaling \$194 million and \$219 million, respectively, resulting from forecast revisions for estimated cost growth at three fixed-price, gas-fired power plant projects in the southeastern United States. The six month period of 2017 also reflects lower earnings contributions from the Energy, Chemicals & Mining segment.

Table of Contents

The effective tax rates for the three and six months ended June 30, 2017 were 72.3 percent and (1.8) percent, respectively, compared to 33.8 percent and 35.5 percent for the corresponding periods of 2016. The effective tax rates for the three and six months ended June 30, 2017, which represented tax benefits in both periods, benefitted from the favorable impact of a worthless stock deduction for an insolvent foreign subsidiary. The effective tax rates for the three and six months ended June 30, 2016 were unfavorably impacted by foreign losses without benefit. All periods benefitted from earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. The items above that benefitted the current year periods had a greater percentage impact on the effective tax rates due to the lower level of operating results for the three and six month periods of 2017.

Diluted loss per share was \$0.17 for the three months ended June 30, 2017 and diluted earnings per share was \$0.26 for the six months ended June 30, 2017, compared to diluted earnings per share of \$0.72 and \$1.46 for the corresponding periods of 2016. Earnings per share for the three and six months ended June 30, 2017 were adversely affected by charges totaling \$0.89 per diluted share and \$0.99 per diluted share, respectively, resulting from forecast revisions for estimated cost growth at the three fixed-price, gas-fired power plant projects mentioned above.

The company's results reported by foreign subsidiaries with non-U.S. dollar functional currencies are affected by foreign currency volatility. When the U.S. dollar appreciates against the non-U.S. dollar functional currencies of these subsidiaries, the company's reported revenue, cost and earnings, after translation into U.S. dollars, are lower than what they would have been had the U.S. dollar depreciated against the same foreign currencies or if there had been no change in the exchange rates.

The company's margins, in some cases, may be favorably or unfavorably impacted by a change in the mix of work performed or a change in the amount of materials and customer-furnished materials, which are accounted for as pass-through costs. Segment profit margins are generally higher during the earlier stages of the project life cycle as project execution activities are more heavily weighted to higher margin engineering activities rather than lower margin construction activities, particularly when there is a significant amount of materials, including customer-furnished materials, recognized during construction. For example, in the first half of 2017, margins in the company's Energy, Chemicals & Mining segment were adversely affected by a shift in the mix of work from higher margin engineering activities to lower margin construction activities.

The Energy, Chemicals & Mining segment remains well positioned for new project activity; however, depressed commodity prices continue to affect the timing of new awards and the pace of execution on certain existing projects.

Consolidated new awards were \$3.2 billion and \$5.5 billion for the three and six months ended June 30, 2017, respectively, compared to new awards of \$6.4 billion and \$11.1 billion for the three and six months ended June 30, 2016. All business segments contributed to the new award activity in 2017. New awards in the first half of 2017 included infrastructure projects in Texas and in the Netherlands, a contract extension for the LOGCAP IV program and an incremental award for a large energy and chemicals project. Approximately 56 percent of consolidated new awards for the six months ended June 30, 2017 were for projects located outside of the United States compared to 28 percent for the first half of 2016.

Consolidated backlog as of June 30, 2017 was \$37.6 billion compared to \$47.3 billion as of June 30, 2016. The decrease in backlog primarily resulted from an adjustment for a liquefied natural gas project in Canada that was suspended in the third quarter of 2016, an adjustment for the July cancellation of a nuclear power plant project for Westinghouse in South Carolina (V.C. Summer), and an adjustment made in the first quarter of 2017 to limit the contractual term of the Magnox nuclear decommissioning project in the United Kingdom (Magnox

RSRL Project) to a five year term, as well as new award activity being outpaced by work performed. As of June 30, 2017, approximately 52 percent of consolidated backlog related to projects outside of the United States compared to 55 percent as of June 30, 2016. Although backlog reflects business which is considered to be firm, cancellations or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, revisions to project scope and cost, and deferrals, as appropriate.

On March 1, 2016, the company acquired 100 percent of Stork Holding B.V. (Stork) for an aggregate purchase price of 695 million (or approximately \$756 million), including the assumption of debt and other liabilities. Stork, based in the Netherlands, is a global provider of maintenance, modification and asset integrity services associated with large existing industrial facilities in the oil and gas, chemicals, petrochemicals, industrial and power markets. The company paid 276 million (or approximately \$300 million) in cash consideration. The operations of Stork are reported in the Diversified Services segment below. See Note 17 to the Condensed Consolidated Financial Statements for a further discussion of the acquisition.

In February 2016, the company made an initial cash investment of \$350 million in COOEC Fluor Heavy Industries Co., Ltd. (CFHI), a joint venture in which the company has a 49% ownership interest and Offshore Oil Engineering Co., Ltd., a subsidiary of China National Offshore Oil Corporation, has 51% ownership interest. Through CFHI, the two companies own, operate and manage the Zhuhai Fabrication Yard in China s Guangdong province. The company made an additional investment of \$62 million in the third quarter of 2016 and has a future funding commitment of \$78 million.

Table of Contents

A description of the company's reportable segments is provided in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2016. During the first quarter of 2017, the company changed the name of the Maintenance, Modification & Asset Integrity segment to Diversified Services. The company reports its operating results in the following four reportable segments: Energy, Chemicals & Mining; Industrial, Infrastructure & Power; Government; and Diversified Services.

Energy, Chemicals & Mining

Revenue and segment profit for the Energy, Chemicals & Mining segment are summarized as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 2,304.0	\$ 2,476.4	\$ 4,606.2	\$ 4,919.9
Segment profit	126.6	125.5	214.9	307.5

Revenue for the three and six months ended June 30, 2017 decreased by 7 percent and 6 percent, respectively, compared to the corresponding periods in 2016, primarily due to reduced volume of project execution activities for certain chemicals projects nearing completion, and delays in the startup of awarded projects at the company's joint venture in Mexico. This revenue decline in both periods was partially offset by an increase in project execution activities for certain downstream and mining and metals projects in the early stages of project execution.

Segment profit for the three months ended June 30, 2017 remained relatively flat while segment profit for the six month period ended June 30, 2017 decreased by 30 percent. Segment profit for the three months ended June 30, 2017 benefited from increased project execution activities and cost improvements for a large, international project, which was significantly offset by a continued shift from higher margin engineering activities to lower margin construction activities. The decrease in segment profit for the six months ended June 30, 2017 was primarily driven by reduced volume of project execution activities for certain chemicals projects nearing completion and a shift in the mix of work from higher margin engineering activities to lower margin construction activities. Segment profit margin for the three and six months ended June 30, 2017 was 5.5 percent and 4.7 percent, respectively, compared to 5.1 percent and 6.3 percent for the corresponding periods in 2016. The change in segment profit margin was primarily attributable to the same factors that affected the decline in segment profit.

New awards for the three and six months ended June 30, 2017 were \$860 million and \$1.7 billion, compared to \$1.2 billion and \$1.8 billion for the corresponding periods of 2016. Backlog of \$19.2 billion as of June 30, 2017 decreased from \$25.1 billion as of June 30, 2016. The reduction in backlog resulted primarily from an adjustment for a liquefied natural gas project in Canada that was suspended in the third quarter of 2016, as well as new award activity being outpaced by work performed. The decline in oil prices since the latter part of 2014 has continued to impact client investment decisions resulting in delays in project start up and new awards. Although mining and metals customers have been deferring their major capital investment decisions for the past several years, the company is beginning to see a renewed interest for projects in the bauxite, copper and gold markets.

Total assets in the segment were \$2.0 billion as of June 30, 2017 compared to \$2.3 billion as of December 31, 2016. The decrease in total assets primarily resulted from a decrease in working capital in support of project execution activities.

Table of Contents**Industrial, Infrastructure & Power**

Revenue and segment profit (loss) for the Industrial, Infrastructure & Power segment are summarized as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 1,026.5	\$ 1,010.0	\$ 2,225.8	\$ 1,843.3
Segment profit (loss)	(168.0)	51.4	(174.7)	63.3

Revenue for the three and six months ended June 30, 2017 increased by 2 percent and 21 percent, respectively, compared to the three and six months ended June 30, 2016. Revenue growth for both periods, which primarily resulted from increased project execution activities for several life sciences and advanced manufacturing projects and two nuclear projects for Westinghouse, was adversely affected by forecast revisions for three fixed-price, gas-fired power plant projects in the southeastern United States.

Segment profit and segment profit margin for the three and six months ended June 30, 2017 were adversely affected by charges totaling \$194 million and \$219 million, respectively, resulting from forecast revisions for estimated cost growth at the three fixed-price, gas-fired power plant projects mentioned above.

The Industrial, Infrastructure & Power segment includes the operations of NuScale, which are primarily research and development activities. NuScale expenses, net of qualified reimbursable expenditures, included in the determination of segment profit were \$17 million and \$33 million for the three and six months ended June 30, 2017 compared to \$22 million and \$48 million for the three and six months ended June 30, 2016.

New awards for the three and six months ended June 30, 2017 were \$672 million and \$1.4 billion, compared to \$3.4 billion and \$4.8 billion for the corresponding periods of 2016. New awards in the current quarter included the Southern Gateway project in Texas. Backlog decreased to \$11.4 billion as of June 30, 2017 compared to \$12.7 billion as of June 30, 2016 primarily due to an adjustment for the July cancellation of a nuclear power plant project for Westinghouse in South Carolina (V.C. Summer) which was partially offset by new awards for infrastructure and life sciences and advanced manufacturing projects during the second half of 2016.

Total backlog in the Industrial, Infrastructure & Power segment as of June 30, 2017 included \$3.0 billion related to a subcontract with Westinghouse to manage the construction workforce at a nuclear power plant project in Georgia (Plant Vogtle). On March 29, 2017, Westinghouse filed for Chapter 11 bankruptcy protection in the U.S. Bankruptcy Court, Southern District of New York. The company continues to provide services to the project site at the request of the owner of the project and continues to be compensated by the owner for ongoing work at the project. Backlog associated with Plant Vogtle as of June 30, 2017 has not been adjusted to reflect any revisions to project scope or cost as discussions with the owner of the project are still underway as they continue with their review to determine whether they proceed and at what scope.

Edgar Filing: FLUOR CORP - Form 10-Q

Total assets in the Industrial, Infrastructure & Power segment were \$809 million as of June 30, 2017 compared to \$750 million as of December 31, 2016. The increase in total assets in the Industrial, Infrastructure & Power segment resulted from increased working capital assets in support of project execution activities. In addition to amounts due for post-petition services, total assets as of June 30, 2017 included amounts due of \$59 million and \$14 million for services provided to V.C. Summer and Plant Vogtle, respectively, prior to the date of the bankruptcy petition. See Note 16 to the Condensed Consolidated Financial Statements.

Table of Contents**Government**

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 744.2	\$ 657.9	\$ 1,509.4	\$ 1,343.9
Segment profit	19.7	22.0	48.7	39.1

Revenue for the three and six months ended June 30, 2017 increased 13 percent and 12 percent, respectively, compared to the same periods in 2016. The revenue growth in both periods was primarily due to increases in project execution activities for the Idaho Cleanup Project Core Contract (Idaho Core Project) and construction services projects. The revenue increase for the six months ended June 30, 2017 was partially offset by lower revenue from the Magnox RSRL Project.

Segment profit for the three months ended June 30, 2017 decreased 10 percent when compared to the same period in 2016, primarily due to reduced contributions from the LOGCAP IV program and certain construction services projects. Segment profit for the six months ended June 30, 2017 increased 25 percent, primarily due to increased contributions from project execution activities for the Idaho Core Project and the Portsmouth Gaseous Diffusion Plant Project, as well as the favorable resolution of close-out activities on a completed project in the first quarter of 2017. The increase in segment profit during the six month period was partially offset by reduced profit contributions from certain construction services projects. Segment profit margins for the three and six months ended June 30, 2017 were 2.7 percent and 3.2 percent, respectively, compared to 3.3 percent and 2.9 percent for the same periods in the prior year. The changes in segment profit margins were driven by the same factors that drove the changes to segment profit.

New awards for the three and six months ended June 30, 2017 were \$1.1 billion and \$1.3 billion compared to \$1.2 billion and \$3.5 billion for the same periods in the prior year. New awards for the current quarter included contract extensions for the LOGCAP IV program and the Strategic Petroleum Reserve project. Backlog as of June 30, 2017 decreased to \$4.1 billion compared to \$5.8 billion as of June 30, 2016 primarily due to a customer decision to limit the contractual term of the Magnox RSRL Project to a five year term ending in August 2019. Total backlog included \$1.3 billion and \$3.2 billion of unfunded government contracts as of June 30, 2017 and 2016, respectively.

Total assets in the Government segment were \$461 million as of June 30, 2017 compared to \$494 million as of December 31, 2016.

Diversified Services

Edgar Filing: FLUOR CORP - Form 10-Q

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 641.4	\$ 711.8	\$ 1,210.6	\$ 1,172.9
Segment profit	36.3	31.1	59.0	61.2

Revenue for the three months ended June 30, 2017 decreased by 10 percent compared to the same period in 2016, primarily due to the completion of certain large Stork projects in Australia and delays in the seasonal upturn in European markets. These revenue declines were partially offset by revenue growth in the equipment business, which experienced higher volume in North America. Revenue for the six months ended June 30, 2017 increased by 3 percent compared to the same period in 2016, primarily due to the inclusion of six months of revenue associated with the acquisition of the Stork business in 2017 compared to four months during the prior year period. The increase in revenue from Stork was partially offset by a lower level of project execution activities in both the continuous site presence and power services businesses.

Segment profit for the three months ended June 30, 2017 increased by 17 percent compared to the same period in 2016, primarily due to increased contributions from the equipment business. Segment profit for the six months ended June 30, 2017 declined by 4 percent compared to the corresponding period in 2016. Lower profit contributions from the Stork business were

Table of Contents

largely offset by increased contributions from the equipment business. Lower segment profit for the six month period is reflective of the seasonal nature of the Stork business, with lower results typically occurring in the first quarter of the year. Segment profit margin for the three and six months ended June 30, 2017 was 5.7 percent and 4.9 percent, respectively, compared to 4.4 percent and 5.2 percent for the same periods of 2016. The change in segment profit margin during both periods was primarily attributable to the same factors affecting segment profit.

New awards in the Diversified Services segment for the three and six months ended June 30, 2017 were \$554 million and \$1.1 billion, respectively, compared to \$664 million and \$1.1 billion for the corresponding periods of 2016. Backlog of \$2.9 billion as of June 30, 2017 decreased from \$3.7 billion as of June 30, 2016. The reduction in backlog resulted from new award activity in the Stork and power services businesses being outpaced by work performed.

Total assets in the Diversified Services segment were \$2.1 billion as of June 30, 2017 compared to \$2.0 billion as of December 31, 2016.

Other

Corporate general and administrative expense for the three and six months ended June 30, 2017 was \$47 million and \$92 million compared to \$53 million and \$108 million for the three and six months ended June 30, 2016. The decreases in corporate general and administrative expense for both the three and six month periods were primarily attributable to transaction costs and integration activities associated with the Stork acquisition incurred in 2016, as well as a decrease in compensation expense in the 2017 periods. These decreases were partially offset by foreign currency exchange losses in the current year periods. Net interest expense was \$9 million and \$20 million for the three and six months ended June 30, 2017 compared to \$14 million and \$26 million during the corresponding periods of 2016. Income tax expense for the three and six months ended June 30, 2017 and 2016 is discussed above under Summary.

RECENT ACCOUNTING PRONOUNCEMENTS

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

LITIGATION AND MATTERS IN DISPUTE RESOLUTION

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

LIQUIDITY AND FINANCIAL CONDITION

Liquidity is provided by available cash and cash equivalents and marketable securities, cash generated from operations, credit facilities and access to capital markets. The company has committed and uncommitted lines of credit, which may be used for revolving loans and letters of credit. The company believes that for at least the next 12 months, cash generated from operations, along with its unused credit capacity and substantial cash position, is sufficient to support operating requirements. However, the company regularly reviews its sources and uses of liquidity and may pursue opportunities to increase its liquidity position. The company's financial strategy and consistent performance have earned it strong credit ratings, resulting in competitive advantage and continued access to the capital markets. As of June 30, 2017, the company was in compliance with all the financial covenants related to its debt agreements.

Cash Flows

Cash and cash equivalents were \$1.8 billion as of June 30, 2017 compared to \$1.9 billion as of December 31, 2016. Cash and cash equivalents combined with current and noncurrent marketable securities were \$2.1 billion as of both June 30, 2017 and December 31, 2016. Cash and cash equivalents are held in numerous accounts throughout the world to fund the company's global project execution activities. Non-U.S. cash and cash equivalents amounted to \$1.2 billion and \$1.0 billion as of June 30, 2017 and December 31, 2016, respectively. Non-U.S. cash and cash equivalents exclude deposits of U.S. legal entities that are either swept into overnight, offshore accounts or invested in offshore, short-term time deposits, to which there is unrestricted access.

In evaluating its liquidity needs, the company considers cash and cash equivalents held by its consolidated VIEs (joint ventures and partnerships). These amounts (which totaled \$523 million and \$440 million as of June 30, 2017 and December 31, 2016, respectively, as reflected on the Condensed Consolidated Balance Sheet) were not necessarily readily available for general purposes. In its evaluation, the company also considers the extent to which the current balance of its advance billings on contracts (which totaled \$1.1 billion and \$764 million as of June 30, 2017 and December 31, 2016, respectively, as reflected on

Table of Contents

the Condensed Consolidated Balance Sheet) is likely to be sustained or consumed over the near term for project execution activities and the cash flow requirements of its various foreign operations. In some cases, it may not be financially efficient to move cash and cash equivalents between countries due to statutory dividend limitations and/or adverse tax consequences. The company did not consider any cash to be permanently reinvested overseas as of June 30, 2017 and December 31, 2016 and, as a result, has accrued the U.S. deferred tax liability on foreign earnings, as appropriate.

Operating Activities

Cash flows from operating activities result primarily from earnings sources and are affected by changes in operating assets and liabilities which consist primarily of working capital balances for projects. Working capital levels vary from period to period and are primarily affected by the company's volume of work. These levels are also impacted by the mix, stage of completion and commercial terms of engineering and construction projects, as well as the company's execution of its projects within budget. Working capital requirements also vary by project and relate to clients in various industries and locations throughout the world. Most contracts require payments as the projects progress. The company evaluates the counterparty credit risk of third parties as part of its project risk review process. The company maintains adequate reserves for potential credit losses and generally such losses have been minimal and within management's estimates. Additionally, certain projects receive advance payments from clients. A normal trend for these projects is to have higher cash balances during the initial phases of execution which then level out toward the end of the construction phase. As a result, the company's cash position is reduced as customer advances are utilized, unless they are replaced by advances on other projects. The company maintains cash reserves and borrowing facilities to provide additional working capital in the event that a project's net operating cash outflows exceed its available cash balances.

During the first half of 2017, working capital decreased primarily due to accrued charges on the power projects discussed above under **Results of Operations** as well as decreases in accounts receivable and contract work in progress and an increase in advance billings, partially offset by an increase in prepaid income taxes. Specific factors related to these drivers include:

- A decrease in accounts receivable, primarily related to collections from an Energy, Chemicals & Mining joint venture project in the United States.
- A decrease in contract work in progress in the Energy, Chemicals & Mining segment, which resulted primarily from normal project execution activities.
- An increase in advance billings in the Energy, Chemicals & Mining segment, which resulted primarily from normal project execution activities.

Edgar Filing: FLUOR CORP - Form 10-Q

During the first half of 2016, working capital increased primarily due to increases in accounts receivable and contract work in progress partially offset by an increase in accounts payable. Specific factors related to these drivers include:

- Increases in accounts receivable, contract work in progress and accounts payable due to the Stork acquisition.
- An increase in accounts receivable in the Energy, Chemicals & Mining segment, which resulted primarily from normal billing activities for a chemicals project.
- Increases in contract work in progress for both the Energy, Chemicals & Mining and Industrial, Infrastructure & Power segments which were the result of normal project execution activities for several projects.
- Increases in accounts payable for both the Energy, Chemicals & Mining and Industrial, Infrastructure & Power segments, which resulted primarily from normal invoicing and payment activities.

Cash provided by operating activities was \$428 million for the six months ended June 30, 2017 compared to \$91 million for the corresponding period of the prior year. The increase in cash provided by operating activities resulted primarily from favorable changes in working capital partially offset by a lower level of net earnings in the current year.

The company contributed \$11 million into its defined benefit pension plans during both the six months ended June 30, 2017 and 2016. The company currently expects to contribute up to \$20 million during 2017, which is expected to be in excess of the minimum funding required.

Table of Contents

Investing Activities

Cash utilized by investing activities amounted to \$373 million and \$573 million for the six months ended June 30, 2017 and 2016, respectively. The primary investing activities included purchases, sales and maturities of marketable securities; capital expenditures; disposals of property, plant and equipment; investments in partnerships and joint ventures; and business acquisitions.

The company holds cash in bank deposits and marketable securities which are governed by the company's investment policy. This policy focuses on, in order of priority, the preservation of capital, maintenance of liquidity and maximization of yield. These investments include money market funds which invest in U.S. Government-related securities, bank deposits placed with highly-rated financial institutions, repurchase agreements that are fully collateralized by U.S. Government-related securities, high-grade commercial paper and high quality short-term and medium-term fixed income securities. During the six months ended June 30, 2017, purchases of marketable securities exceeded proceeds from sales and maturities of such securities by \$70 million. During the six months ended June 30, 2016, proceeds from sales and maturities of marketable securities exceeded purchases of such securities by \$130 million. The company held combined current and noncurrent marketable securities of \$325 million and \$255 million as of June 30, 2017 and December 31, 2016, respectively.

Capital expenditures of \$142 million and \$107 million for the six months ended June 30, 2017 and 2016, respectively, primarily related to construction equipment associated with equipment operations in the Diversified Services segment, as well as expenditures for facilities and investments in information technology. Proceeds from the disposal of property, plant and equipment of \$28 million and \$39 million during the first half of 2017 and 2016, respectively, primarily related to the disposal of construction equipment associated with the equipment operations in the Diversified Services segment.

During 2016, the company acquired 100 percent of Stork for an aggregate purchase price of 695 million (or approximately \$756 million), including the assumption of debt and other liabilities. Stork, based in the Netherlands, is a global provider of maintenance, modification and asset integrity services associated with large existing industrial facilities in the oil and gas, chemicals, petrochemicals, industrial and power markets. The company paid 276 million (or approximately \$300 million) in cash consideration. The company borrowed 200 million (or approximately \$217 million) under its \$1.7 billion Revolving Loan and Letter of Credit Facility, and paid 76 million (or approximately \$83 million) of cash on hand to initially finance the Stork acquisition. The 200 million borrowed under the \$1.7 billion Revolving Loan and Letter of Credit Facility was subsequently repaid from the net proceeds of the 2016 Notes as discussed in Note 10 to the Condensed Consolidated Financial Statements.

Investments in unconsolidated partnerships and joint ventures were \$191 million and \$401 million during the six months ended June 30, 2017 and 2016, respectively. Investments during the six months ended June 30, 2017 included capital contributions to an Energy, Chemicals & Mining joint venture in the United States. Investments during the six months ended June 30, 2016 included an initial cash investment of \$350 million in COOEC Fluor Heavy Industries Co., Ltd. (CFHI), a joint venture in which the company has a 49% ownership interest and Offshore Oil Engineering Co., Ltd., a subsidiary of China National Offshore Oil Corporation, has 51% ownership interest. Through CFHI, the two companies own, operate and manage the Zhuhai Fabrication Yard in China's Guangdong province. The company made an additional investment of \$62 million in the third quarter of 2016 and has a future funding commitment of \$78 million.

Financing Activities

Cash utilized by financing activities of \$123 million during the six months ended June 30, 2017 and cash provided by financing activities of \$168 million during the six months ended June 30, 2016 included company stock repurchases, company dividend payments to stockholders, proceeds from the issuance of senior notes, repayments of debt, borrowings and repayments under revolving lines of credit, and distributions paid to holders of noncontrolling interests.

Cash utilized by financing activities during the six months ended June 30, 2016 included the repurchase and cancellation of 202,650 shares of the company's common stock for approximately \$10 million under its stock repurchase program.

Quarterly cash dividends are typically paid during the month following the quarter in which they are declared. Therefore, dividends declared in the fourth quarter of 2016 were paid in the first quarter of 2017. Quarterly cash dividends of \$0.21 per share were declared in the second quarter of 2017 and 2016. The payment and level of future cash dividends is subject to the discretion of the company's Board of Directors.

In March 2016, the company issued \$500 million of 1.750% Senior Notes (the 2016 Notes) due March 21, 2023 and received proceeds of \$497 million (or approximately \$551 million), net of underwriting discounts. Interest on the 2016 Notes is payable annually on March 21 of each year, beginning on March 21, 2017. Prior to December 21, 2022, the company may redeem the

Table of Contents

2016 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture. On or after December 21, 2022, the company may redeem the 2016 Notes at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption. Additionally, the company may redeem the 2016 Notes at any time upon the occurrence of certain changes in U.S. tax laws, as described in the indenture, at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption.

In November 2014, the company issued \$500 million of 3.5% Senior Notes (the 2014 Notes) due December 15, 2024 and received proceeds of \$491 million, net of underwriting discounts. Interest on the 2014 Notes is payable semi-annually on June 15 and December 15 of each year, and began on June 15, 2015. Prior to September 15, 2024, the company may redeem the 2014 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture. On or after September 15, 2024, the company may redeem the 2014 Notes at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption.

In September 2011, the company issued \$500 million of 3.375% Senior Notes (the 2011 Notes) due September 15, 2021 and received proceeds of \$492 million, net of underwriting discounts. Interest on the 2011 Notes is payable semi-annually on March 15 and September 15 of each year, and began on March 15, 2012. The company may, at any time, redeem the 2011 Notes at a redemption price equal to 100 percent of the principal amount, plus a make whole premium described in the indenture.

For the 2016 Notes, the 2014 Notes and the 2011 Notes, if a change of control triggering event occurs, as defined by the terms of the respective indentures, the company will be required to offer to purchase applicable notes at a purchase price equal to 101 percent of their principal amount, plus accrued and unpaid interest, if any, to the date of redemption. The company is generally not limited under the indentures governing the 2016 Notes, the 2014 Notes and the 2011 Notes in its ability to incur additional indebtedness provided the company is in compliance with certain restrictive covenants, including restrictions on liens and restrictions on sale and leaseback transactions. We may, from time to time, repurchase the 2016 Notes, the 2014 Notes or the 2011 Notes in the open market, in privately-negotiated transactions or otherwise in such volumes, at such prices and upon such other terms as we deem appropriate.

In conjunction with the acquisition of Stork on March 1, 2016, the company assumed Stork's outstanding debt obligations, including its 11.0% Super Senior Notes due 2017 (the Stork Notes), borrowings under a \$110 million Super Senior Revolving Credit Facility, and other debt obligations. On March 2, 2016, the company gave notice to all holders of the Stork Notes of the full redemption of the outstanding \$273 million (or approximately \$296 million) principal amount of Stork Notes plus a redemption premium of \$7 million (or approximately \$8 million) effective March 17, 2016. The redemption of the Stork Notes was initially funded with additional borrowings under the company's \$1.7 billion Revolving Loan and Letter of Credit Facility, which borrowings were subsequently repaid from the net proceeds of the 2016 Notes. Certain other outstanding debt obligations assumed in the Stork acquisition of \$20 million (or approximately \$22 million) were settled in March 2016. In April 2016, the company repaid and replaced the \$110 million Super Senior Revolving Credit Facility with a \$125 million Revolving Credit Facility that was available to fund working capital in the ordinary course of business. This replacement facility, which bore interest at EURIBOR plus .75%, expired in April 2017.

Distributions paid to holders of noncontrolling interests represent cash outflows to partners of consolidated partnerships or joint ventures created primarily for the execution of single contracts or projects. Distributions paid were \$21 million and \$24 million during the six months ended June 30, 2017 and 2016, respectively. Distributions in 2017 and 2016 primarily related to two transportation joint venture projects in the United States.

Effect of Exchange Rate Changes on Cash

Unrealized translation gains and losses resulting from changes in functional currency exchange rates are reflected in the cumulative translation component of accumulated other comprehensive loss. During the six months ended June 30, 2017, most major foreign currencies strengthened against the U.S. dollar resulting in unrealized translation gains of \$61 million of which \$37 million, related to cash held by foreign subsidiaries. During the six months ended June 30, 2016, some major foreign currencies weakened against the U.S. dollar resulting in unrealized translation losses of \$26 million, of which \$9 million related to cash held by foreign subsidiaries. The cash held in foreign currencies will primarily be used for project-related expenditures in those currencies, and therefore the company's exposure to exchange gains and losses is generally mitigated.

Table of Contents

Off-Balance Sheet Arrangements

Guarantees and Commitments

As of June 30, 2017, the company had a combination of committed and uncommitted lines of credit that may be used for revolving loans and letters of credit. As of June 30, 2017, letters of credit and borrowings totaling \$1.8 billion were outstanding under these committed and uncommitted lines of credit. The committed lines of credit include a \$1.7 billion Revolving Loan and Letter of Credit Facility and a \$1.8 billion Revolving Loan and Letter of Credit Facility. Both facilities mature in February 2022. The company may utilize up to \$1.75 billion in the aggregate of the combined \$3.5 billion committed lines of credit for revolving loans, which may be used for acquisitions and/or general purposes. Each of the credit facilities may be increased up to an additional \$500 million subject to certain conditions, and contain customary financial and restrictive covenants, including a maximum ratio of consolidated debt to tangible net worth of one-to-one and a cap on the aggregate amount of debt of the greater of \$750 million or 750 million for the company's subsidiaries. Borrowings under both facilities, which may be denominated in USD, EUR, GBP or CAD, bear interest at rates based on the Eurodollar Rate or an alternative base rate, plus an applicable borrowing margin.

In connection with the Stork acquisition, the company assumed a \$110 million Super Senior Revolving Credit Facility that bore interest at EURIBOR plus 3.75%. In April 2016, the company repaid and replaced the \$110 million Super Senior Revolving Credit Facility with a \$125 million Revolving Credit Facility which was used for revolving loans, bank guarantees, letters of credit and to fund working capital in the ordinary course of business. This replacement facility, which bore interest at EURIBOR plus .75%, expired in April 2017.

Letters of credit are provided in the ordinary course of business primarily to indemnify the company's clients if the company fails to perform its obligations under its contracts. Surety bonds may be used as an alternative to letters of credit.

In the ordinary course of business, the company enters into various agreements providing performance assurances and guarantees to clients on behalf of certain unconsolidated and consolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The performance guarantees have various expiration dates ranging from mechanical completion of the project being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential amount of future payments that the company could be required to make under outstanding performance guarantees, which represents the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts, was estimated to be \$14 billion as of June 30, 2017. Amounts that may be required to be paid in excess of estimated cost to complete contracts in progress are not estimable. For cost reimbursable contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee amount is the cost to complete the contracted work, less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract, the company may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors for claims. The company assessed its performance guarantee obligation as of June 30, 2017 and December 31, 2016 in accordance with ASC 460, Guarantees, and the carrying value of the liability was not material.

Financial guarantees, made in the ordinary course of business in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. These arrangements generally require the borrower to pledge collateral to support the fulfillment of the borrower's obligation.

Variable Interest Entities

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to market risk in the first half of 2017. Accordingly, the disclosures provided in the Annual Report on Form 10-K for the year ended December 31, 2016 remain current.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

Table of Contents

FLUOR CORPORATION
CHANGES IN CONSOLIDATED BACKLOG

UNAUDITED

(in millions)	Three Months Ended June 30,		
	2017		2016
Backlog beginning of period	\$	41,607.1	\$ 45,989.5
New awards		3,194.8	6,431.8
Adjustments and cancellations, net(1)		(2,621.6)	(341.9)
Work performed		(4,609.8)	(4,757.7)
Backlog end of period	\$	37,570.5	\$ 47,321.7

(in millions)	Six Months Ended June 30,		
	2017		2016
Backlog beginning of period	\$	45,011.9	\$ 44,726.1
New awards		5,508.1	11,113.2
Acquisition of Stork			1,533.7
Adjustments and cancellations, net(1)		(3,606.2)	(982.2)
Work performed		(9,343.3)	(9,069.1)
Backlog end of period	\$	37,570.5	\$ 47,321.7

(1) Adjustments and cancellations, net during the three months ended June 30, 2017 resulted primarily from the July cancellation of a nuclear power plant project for Westinghouse in South Carolina (V.C. Summer). Adjustments and cancellations, net in the first half of 2017 also included an adjustment to limit the contractual term of the Magnox RSRL Project to a five year term ending in August 2019, as well as exchange rate fluctuations. Adjustments and cancellations, net in the three and six months ended June 30, 2016 resulted primarily from project scope reductions, as well as exchange rate fluctuations.

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

Fluor and its subsidiaries, as part of their normal business activities, are parties to a number of legal proceedings and other matters in various stages of development. Management periodically assesses our liabilities and contingencies in connection with these matters based upon the latest information available. We disclose material pending legal proceedings pursuant to Securities and Exchange Commission rules and other pending matters as we may determine to be appropriate.

For information on matters in dispute, see Note 14 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on February 17, 2017, and Note 13 to the Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes from our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

(c) The following table provides information about purchases by the company during the quarter ended June 30, 2017 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	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 (1)
April 1, 2017 – April 30, 2017		\$		11,610,219

May 1, 2017	May 31, 2017	11,610,219
June 1, 2017	June 30, 2017	11,610,219
Total		\$

(1) The share repurchase program was originally announced on November 3, 2011 for 12,000,000 shares and has been amended to increase the size of the program by an aggregate 34,000,000 shares, most recently in February 2016 with an increase of 10,000,000 shares. The company continues to repurchase shares from time to time in open market transactions or privately negotiated transactions, including through pre-arranged trading programs, at its discretion, subject to market conditions and other factors and at such time and in amounts that the company deems appropriate.

Item 5. Other Information

The Board of Directors of Fluor previously approved, subject to stockholder approval, the Fluor Corporation 2017 Performance Incentive Plan (the 2017 Plan). On May 4, 2017, at the Fluor annual meeting of stockholders, Fluor s stockholders approved the 2017 Plan. The 2017 Plan became effective upon stockholder approval. Subject to adjustment in certain circumstances, a total of 12,200,000 shares of the company s common stock were authorized for awards granted under the 2017 Plan. Effective upon approval of the 2017 Plan, the company ceased granting awards under its Amended and Restated 2008 Executive Performance Incentive Plan and 2014 Restricted Stock Plan for Non-Employee Directors.

Table of Contents

A detailed summary of the 2017 Plan appears under Proposal 4 of Fluor's definitive proxy statement for its 2017 annual meeting of stockholders, which was filed with the Securities and Exchange Commission on March 9, 2017 (the "2017 Proxy Statement"). That summary is incorporated herein by reference. The descriptions of the 2017 Plan contained herein and in the 2017 Proxy Statement are qualified in their entirety by reference to the full text of the 2017 Plan, a copy of which was filed as Appendix A to the 2017 Proxy Statement and is incorporated herein by reference.

On July 14, 2017, the company announced the appointment of Bruce A. Stanski as the company's Chief Financial Officer, effective August 4, 2017. In connection with Mr. Stanski's appointment, on August 2, 2017, the Organization and Compensation Committee of the company's Board of Directors set his annual base salary at \$700,000. Mr. Stanski's annual incentive target will remain 85% of base salary, and he will continue to be eligible to participate in the company's long-term incentive program. Further details concerning the company's executive compensation program are described in the company's 2017 Proxy Statement under the heading "Executive Compensation".

Table of Contents

Item 6. Exhibits

EXHIBIT INDEX

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 8, 2012).
3.2	Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on February 9, 2016).
4.1	Senior Debt Securities Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of September 8, 2011 (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K filed on September 8, 2011).
4.2	First Supplemental Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of September 13, 2011 (incorporated by reference to Exhibit 4.4 to the registrant's Current Report on Form 8-K filed on September 13, 2011).
4.3	Second Supplemental Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of June 22, 2012 (incorporated by reference to Exhibit 4.2 to the registrant's Form S-3ASR filed on June 22, 2012).
4.4	Third Supplemental Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of November 25, 2014 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on November 25, 2014).
4.5	Fourth Supplemental Indenture between Fluor Corporation and Wells Fargo Bank, National Association, as trustee, dated as of March 21, 2016 (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K filed on March 21, 2016).
10.1	Fluor Corporation 2003 Executive Performance Incentive Plan, as amended and restated as of March 30, 2005 (incorporated by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2005).
10.2	Form of Compensation Award Agreements for grants under the Fluor Corporation 2003 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q filed on November 9, 2004).
10.3	Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 3, 2013).
10.4	Form of Option Agreement (2015 grants) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.26 to the registrant's Quarterly Report on Form 10-Q filed on April 30, 2015).
10.5	Form of Option Agreement (2017 grants) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.6 to the registrant's Annual Report on Form 10-K filed on February 17, 2017).
10.6	Form of Value Driver Incentive Award Agreement (for the senior team) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.24 to the registrant's Quarterly Report on Form 10-Q filed on April 30, 2015).

Edgar Filing: FLUOR CORP - Form 10-Q

- 10.7 Form of Value Driver Incentive Award Agreement (for the senior team, with a post-vesting holding period) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2016).
- 10.8 Form of Value Driver Incentive Award Agreement (2017 grants) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed on February 17, 2017).
- 10.9 Form of Value Driver Incentive Award Agreement (for non-senior executives) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.25 to the registrant's Quarterly Report on Form 10-Q filed on April 30, 2015).
- 10.10 Form of Value Driver Incentive Award Agreement (cash-based, for non-senior executives) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.9 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2016).

Edgar Filing: FLUOR CORP - Form 10-Q

Table of Contents

- 10.11 Form of Restricted Stock Unit Agreement under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.27 to the registrant's Quarterly Report on Form 10-Q filed on April 30, 2015).
- 10.12 Form of Restricted Stock Unit Agreement (for the senior team, with a post-vesting holding period) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.10 to the registrant's Quarterly Report on Form 10-Q filed on May 5, 2016).
- 10.13 Form of Restricted Stock Unit Agreement (2017 grants) under the Fluor Corporation Amended and Restated 2008 Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.14 to the registrant's Annual Report on Form 10-K filed on February 17, 2017).
- 10.14 Fluor Corporation 2017 Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Registration Statement on Form S-8 filed on May 4, 2017).
- 10.15 Fluor Executive Deferred Compensation Plan, as amended and restated effective April 21, 2003 (incorporated by reference to Exhibit 10.5 to the registrant's Annual Report on Form 10-K filed on February 29, 2008).
- 10.16 Fluor 409A Executive Deferred Compensation Program, as amended and restated effective January 1, 2014 (incorporated by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K filed on February 18, 2014).
- 10.17 Executive Severance Plan (incorporated by reference to Exhibit 10.7 to the registrant's Annual Report on Form 10-K filed on February 22, 2012).
- 10.18 Summary of Fluor Corporation Non-Management Director Compensation (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on February 7, 2017).
- 10.19 Form of Restricted Stock Unit Agreement granted to directors under the Fluor Corporation 2017 Performance Incentive Plan.*
- 10.20 Fluor Corporation Deferred Directors' Fees Program, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed on March 31, 2003).
- 10.21 Fluor Corporation 409A Director Deferred Compensation Program, as amended and restated effective as of November 2, 2016 (incorporated by reference to Exhibit 10.22 to the registrant's Annual Report on Form 10-K filed on February 17, 2017).
- 10.22 Directors' Life Insurance Summary (incorporated by reference to Exhibit 10.12 to the registrant's Registration Statement on Form 10/A (Amendment No. 1) filed on November 22, 2000).
- 10.23 Form of Indemnification Agreement entered into between the registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K filed on February 25, 2009).
- 10.24 Form of Change in Control Agreement entered into between the registrant and each of its executive officers (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 29, 2010).
- 10.25 \$1,800,000,000 Amended and Restated Revolving Loan and Letter of Credit Facility Agreement dated as of February 25, 2016, among Fluor Corporation, Fluor B.V., the Lenders thereunder, BNP Paribas, as Administrative Agent and an Issuing Lender, Bank of America, N.A., as Syndication Agent, and Citibank, N.A. and The Bank of Tokyo - Mitsubishi UFJ, Ltd., as Co-Documentation Agents (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 2, 2016).
- 10.26 \$1,700,000,000 Amended and Restated Revolving Loan and Letter of Credit Facility Agreement dated as of February 25, 2016, among Fluor Corporation, Fluor B.V., the Lenders thereunder, BNP Paribas, as Administrative Agent and an Issuing Lender, Bank of America, N.A., as Syndication Agent, and Citibank, N.A. and The Bank of Tokyo - Mitsubishi UFJ, Ltd., as Co-Documentation Agents (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-Q filed on March 2, 2016).

Edgar Filing: FLUOR CORP - Form 10-Q

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

Table of Contents

32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

* New exhibit filed with this report.

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Earnings for the three and six months ended June 30, 2017 and 2016, (ii) the Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iii) the Condensed Consolidated Balance Sheet as of June 30, 2017 and December 31, 2016, and (iv) the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2017 and 2016.

Table of Contents

SIGNATURES

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

FLUOR CORPORATION

Date: August 3, 2017

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

Date: August 3, 2017

/s/ Robin K. Chopra
Robin K. Chopra
Senior Vice President and Controller (Chief Accounting Officer)