

FLUOR CORP
Form 10-Q
August 10, 2009
[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, 2009

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)

33-0927079

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

**6700 Las Colinas Boulevard
Irving, Texas**

(Address of principal executive offices)

75039

(Zip Code)

469-398-7000

(Registrant's telephone number, including area code)

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

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

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

Edgar Filing: FLUOR CORP - Form 10-Q

one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of July 31, 2009, 179,864,609 shares of the registrant's common stock, \$0.01 par value, were outstanding.

Table of Contents

FLUOR CORPORATION

FORM 10-Q

June 30, 2009

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, 2009 and 2008 (Unaudited)</u>	2
<u>Condensed Consolidated Balance Sheet at June 30, 2009 and December 31, 2008 (Unaudited)</u>	3
<u>Condensed Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2009 and 2008 (Unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2:</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3:</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
<u>Item 4:</u>	
<u>Controls and Procedures</u>	26
<u>Changes in Consolidated Backlog (Unaudited)</u>	27
<u>Part II:</u>	
<u>Other Information</u>	
<u>Item 1:</u>	
<u>Legal Proceedings</u>	28
<u>Item 1A:</u>	
<u>Risk Factors</u>	28
<u>Item 2:</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6:</u>	
<u>Exhibits</u>	29
<u>Signatures</u>	31

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,	
	2009	2008	2009	2008
TOTAL REVENUE	\$ 5,292,554	\$ 5,773,570	\$ 11,090,443	\$ 10,580,551
TOTAL COST OF REVENUE				
Cost of revenue	4,975,649	5,449,963	10,424,265	9,999,663
Gain on sale of joint venture interest		(79,209)		(79,209)
OTHER (INCOME) AND EXPENSES				
Corporate administrative and general expense	42,003	61,711	67,418	101,231
Interest expense	2,488	5,489	5,071	10,685
Interest income	(5,836)	(17,720)	(13,061)	(32,931)
Total cost and expenses	5,014,304	5,420,234	10,483,693	9,999,439
EARNINGS BEFORE TAXES	278,250	353,336	606,750	581,112
INCOME TAX EXPENSE	101,911	135,459	209,124	218,896
NET EARNINGS	176,339	217,877	397,626	362,216
NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,069)	(9,920)	(23,557)	(17,553)
NET EARNINGS ATTRIBUTABLE TO FLUOR CORPORATION	\$ 169,270	\$ 207,957	\$ 374,069	\$ 344,663
EARNINGS PER SHARE				
BASIC	\$ 0.94	\$ 1.17	\$ 2.06	\$ 1.94
DILUTED	\$ 0.93	\$ 1.12	\$ 2.05	\$ 1.86
SHARES USED TO CALCULATE EARNINGS PER SHARE				
BASIC	179,054	176,268	179,686	175,983

Edgar Filing: FLUOR CORP - Form 10-Q

DILUTED	181,198	184,341	181,201	183,532
DIVIDENDS DECLARED PER SHARE	\$ 0.125	\$ 0.125	\$ 0.25	\$ 0.25

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

UNAUDITED

(in thousands, except share amounts)	June 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,181,894	\$ 1,834,324
Marketable securities	927,091	273,570
Accounts and notes receivable, net	1,268,764	1,227,224
Contract work in progress	1,060,881	981,125
Deferred taxes	173,087	148,132
Other current assets	296,262	204,143
Total current assets	4,907,979	4,668,518
Marketable securities, noncurrent	216,501	22,884
Property, plant and equipment (net of accumulated depreciation of \$761,894 and \$696,306, respectively)	830,971	799,836
Investments and goodwill	305,321	279,134
Deferred taxes	365,461	386,613
Deferred compensation trusts	237,984	225,246
Other	43,683	41,346
	\$ 6,907,900	\$ 6,423,577
LIABILITIES AND EQUITY		
Current liabilities		
Trade accounts payable	\$ 1,243,808	\$ 1,164,556
Convertible senior notes	121,713	133,194
Advance billings on contracts	1,008,362	999,107
Accrued salaries, wages and benefits	558,968	607,702
Other accrued liabilities	357,456	257,667
Total current liabilities	3,290,307	3,162,226
Long-term debt due after one year	17,731	17,722
Noncurrent liabilities	539,819	520,445
Contingencies and commitments		
Equity		
Shareholders' equity		
Capital stock		
Preferred — authorized 20,000,000 shares (\$0.01 par value); none issued	1,799	1,816

Edgar Filing: FLUOR CORP - Form 10-Q

Common authorized 375,000,000 shares (\$0.01 par value); issued and outstanding and 181,555,921 shares in 2009 and 2008, respectively	179,855,245		
Additional paid-in capital		727,587	778,537
Accumulated other comprehensive loss		(309,926)	(356,969)
Retained earnings		2,576,599	2,247,938
Total shareholders equity		2,996,059	2,671,322
Noncontrolling interests		63,984	51,862
Total equity		3,060,043	2,723,184
		\$ 6,907,900	\$ 6,423,577

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

Edgar Filing: FLUOR CORP - Form 10-Q

(in thousands)	Six Months Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 397,626	\$ 362,216
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation of fixed assets	88,633	78,527
Amortization of intangibles	637	890
Gain on sale of joint venture interest		(79,209)
Restricted stock and stock option amortization	16,842	18,040
Deferred compensation trust	(12,738)	19,533
Deferred compensation obligation	15,702	(16,134)
Taxes paid on vested restricted stock	(4,851)	(15,340)
Deferred taxes	(32,061)	1,380
Stock option tax benefit	784	(14,855)
Retirement plan accrual, net of contributions	20,042	5,007
Changes in operating assets and liabilities	(94,187)	330,764
Equity in earnings of investees, net of dividends	(11,466)	(5,989)
Other items	(5,010)	5,470
Cash provided by operating activities	379,953	690,300
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(120,593)	(127,097)
Purchases of marketable securities	(1,258,250)	(1,065,067)
Proceeds from maturities of marketable securities	423,826	722,123
Investments	(1,039)	(2,123)
Proceeds from disposal of property, plant and equipment	17,188	20,273
Proceeds from sale of joint venture interest		79,209
Other items	2,011	(1,248)
Cash utilized by investing activities	(936,857)	(373,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common shares	(61,259)	
Dividends paid	(45,578)	(44,453)
Repayment of convertible debt	(11,865)	(5,105)
Distributions paid to noncontrolling interests	(14,138)	(8,722)
Capital contribution from noncontrolling interests		3,872
Stock option tax benefit	(784)	14,855
Stock options exercised	719	12,203
Other items	(1,393)	999
Cash utilized by financing activities	(134,298)	(26,351)
Effect of exchange rate changes on cash	38,772	20,420
(Decrease) increase in cash and cash equivalents	(652,430)	310,439
Cash and cash equivalents at beginning of period	1,834,324	1,175,144
Cash and cash equivalents at end of period	\$ 1,181,894	\$ 1,485,583

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(1) The Condensed Consolidated Financial Statements do not include footnotes and certain financial information normally presented annually under accounting principles generally accepted in the United States and, therefore, should be read in conjunction with the company's December 31, 2008 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, 2009 are not necessarily indicative of results that can be expected for the full year.

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are necessary to present fairly its consolidated financial position at June 30, 2009 and its consolidated results of operations and cash flows for the three and six months ended June 30, 2009 and 2008. Management adopted Statement of Financial Accounting Standard (SFAS) No. 165, *Subsequent Events* during the second quarter of 2009 and, accordingly, has evaluated all material events occurring subsequent to the date of the financial statements up to the date and time this quarterly report is filed on Form 10-Q.

Certain 2008 amounts have been reclassified to conform with the 2009 presentation.

(2) *Recent Accounting Pronouncements*

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS 168)*. SFAS 168 establishes the FASB Accounting Standards Codification (Codification), which officially launched July 1, 2009, to become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Management does not expect the adoption of this standard to have an impact on the company's financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R) (SFAS 167)*. SFAS 167 eliminates exceptions in FASB Interpretation No. 46 (Revised) *Consolidation of Variable Interest Entities (FIN 46(R))* related to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. SFAS 167 is effective for interim and annual reporting periods beginning after November 15, 2009. Management is currently evaluating the impact on the company's financial position, results of operations and cash flows.

Edgar Filing: FLUOR CORP - Form 10-Q

In December 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP SFAS 132(R)-1). FSP SFAS 132(R)-1 amends SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits (SFAS 132(R)) to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional disclosure requirements under FSP SFAS 132(R)-1 include expanded disclosure about an entity s investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. FSP SFAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. Management is currently evaluating the impact on the company s financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) replaces SFAS 141 and establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired in its financial statements. This standard is effective for fiscal years beginning after December 15, 2008. The company adopted this standard during the first quarter of 2009. The adoption of SFAS 141(R) did not have a material impact on the company s financial position, results of operations or cash flows.

During the first half of 2009, the company implemented several new accounting pronouncements that are discussed in the notes where applicable.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net earnings	\$ 176,339	\$ 217,877	\$ 397,626	\$ 362,216
Unrealized gain on debt securities	230		29	
Unrealized gain (loss) on derivative contracts(1)	3,502		(323)	
Foreign currency translation adjustment(2)	48,004	2,195	43,096	11,327
Pension plan adjustment(3)	(3,249)	2,234	4,241	466
Comprehensive income	224,826	222,306	444,669	374,009
Comprehensive income attributable to noncontrolling interests	(7,069)	(9,920)	(23,557)	(17,553)
Comprehensive income attributable to Fluor Corporation	\$ 217,757	\$ 212,386	\$ 421,112	\$ 356,456

(1) Net of deferred tax expense of \$2.1 million and deferred tax benefit of \$0.2 million during the three and six months ended June 30, 2009, respectively.

(2) Net of deferred tax expense of \$27.5 million and \$25.9 million during the three and six months ended June 30, 2009, respectively, and deferred tax expense of \$1.3 million and \$8.4 million during the three and six months ended June 30, 2008, respectively.

(3) Net of deferred tax benefit of \$2.0 million and deferred tax expense \$2.5 million during the three and six months ended June 30, 2009, respectively, and deferred tax expense of \$1.3 million and \$0.3 million during the three and six months ended June 30, 2008, respectively.

(4) The effective tax rate, based on the company's actual operating results for the three and six months ended June 30, 2009 was 36.6 percent and 34.5 percent, respectively, compared to 38.3 percent and 37.7 percent for the corresponding periods of 2008. The lower effective tax rate for the three and six month periods ending June 30, 2009 was due to the recognition of a deferred tax benefit associated with taxes on unremitted foreign earnings and increased earnings attributable to noncontrolling interests for which the taxes are not paid by the company.

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

Edgar Filing: FLUOR CORP - Form 10-Q

materially different, both favorably and unfavorably. With few exceptions, the company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2003.

(5) Cash paid for interest was \$6.4 million and \$6.6 million for the six months ended June 30, 2009 and 2008, respectively. Income tax payments, net of receipts, were \$237.6 million and \$159.1 million during the six-month periods ended June 30, 2009 and 2008, respectively.

(6) In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. The company's restricted stock units and restricted stock awards are considered participating securities since the share-based awards contain a nonforfeitable right to dividends irrespective of whether the awards ultimately vest. FSP EITF 03-6-1 requires that the two-class method of computing basic EPS be applied. Under the two-class method, the company's stock options are not considered to be participating securities. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and was adopted by the company during the first quarter of 2009. There was no impact of significance on basic or diluted EPS as a result of the adoption of FSP EITF 03-6-1.

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

UNAUDITED

The calculation of the basic and diluted EPS for the three and six months ended June 30, 2009 and 2008 are presented below:

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Basic EPS:				
Net earnings attributable to Fluor Corporation	\$ 169,270	\$ 207,957	\$ 374,069	\$ 344,663
Amount allocable to common shareholders	99.05%	99.09%	99.11%	99.05%
Net earnings allocable to common shareholders	\$ 167,662	\$ 206,065	\$ 370,740	\$ 341,389
Weighted average common shares outstanding	179,054	176,268	179,686	175,983
Basic earnings per share	\$ 0.94	\$ 1.17	\$ 2.06	\$ 1.94
Diluted EPS:				
Net earnings allocable to common shareholders	\$ 167,662	\$ 206,065	\$ 370,740	\$ 341,389
Weighted average common shares outstanding	179,054	176,268	179,686	175,983
Diluted effect:				
Employee stock options	146	471	85	433
Conversion equivalent of dilutive convertible debt	1,998	7,602	1,430	7,116
Weighted average diluted shares outstanding	181,198	184,341	181,201	183,532
Diluted earnings per share	\$ 0.93	\$ 1.12	\$ 2.05	\$ 1.86
Anti-dilutive securities not included above	537		1,186	80

The table below sets forth the calculation of the percentage of net earnings allocable to common shareholders under the two-class method:

(shares in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Weighted average participating common shares	179,054	176,268	179,686	175,983
Denominator:				
Weighted average participating common shares	179,054	176,268	179,686	175,983

Edgar Filing: FLUOR CORP - Form 10-Q

Add: Weighted average restricted shares and units	1,711	1,617	1,615	1,695
Weighted average participating shares	180,765	177,885	181,301	177,678
Portion allocable to common shareholders	99.05%	99.09%	99.11%	99.05%

(7) In April 2009, the FASB issued FSP SFAS No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP SFAS 107-1 and APB 28-1). FSP SFAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP was effective for interim reporting periods ending after June 15, 2009. The company adopted this standard during the second quarter of 2009. The adoption of FSP SFAS 107-1 and APB 28-1 did not have a material impact on the company's financial position, results of operations or cash flows.

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

UNAUDITED

The estimated fair values of the company's financial instruments that are not measured at fair value on a recurring basis are as follows as of June 30, 2009:

(in thousands)	Carrying Value	Fair Value
Assets:		
Cash and cash equivalents	\$ 990,178(1)	\$ 990,178
Marketable securities	830,602(2)	830,602
Notes receivable, including noncurrent portion	32,611	32,611
Liabilities:		
1.5% Convertible Senior Notes	\$ 121,713	\$ 220,970
5.625% Municipal Bonds	17,731	18,208

-
- (1) Consists of bank deposits with maturities of 90 days or less.
- (2) Consists of held-to-maturity time deposits with maturities greater than 90 days.

Fair values were determined as follows:

- The carrying amounts of cash and cash equivalents, marketable securities and short-term notes receivable approximate fair value because of the short-term maturity of these instruments.
- Long-term notes receivable are estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings.
- The fair value of debt obligations is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same maturities.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

The following table presents, for each of the fair value hierarchy levels required under SFAS No. 157, Fair Value Measurements, the company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009:

(in thousands)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 191,716	\$ 184,717(1)	\$ 6,999(2)	\$
Marketable securities	\$ 96,489	\$	\$ 96,489(2)	\$
Deferred compensation trusts	\$ 53,350	\$ 53,350(1)	\$	\$
Marketable securities, noncurrent	\$ 216,501	\$	\$ 216,501(3)	\$
Derivative assets(4)				
Commodity swap forward contracts	\$ 1,690	\$	\$ 1,690	\$
Foreign currency contracts	145		145	
Liabilities:				
Derivative liabilities(4)				
Commodity swap forward contracts	\$ 7,720	\$	\$ 7,720	\$
Foreign currency contracts	1,687		1,687	

-
- (1) Consists of registered money market funds valued at fair value, which represents the net asset value of the shares of such funds as of the close of business at the end of the period. The fair value is not materially different from the cost basis.
- (2) Consists of investments in U.S. agency securities, U.S. Treasury securities, corporate debt securities and commercial paper which are valued at the last reported sale price on the last business day at the end of the period. Securities not traded on the last business day are valued at the last reported bid price. The fair value is not materially different from the cost basis.
- (3) Consists of investments in U.S. agency securities, U.S. Treasury securities and corporate debt securities with maturities ranging from one to five years. The fair value is not materially different from the cost basis.
- (4) See Note 8 for the classification of commodity swap forward contracts and foreign currency contracts on the Condensed Consolidated Balance Sheet. Foreign currency contracts are estimated by obtaining quotes from brokers. Commodity swap forward contracts are estimated using standard pricing models with market-based inputs, which take into account the present value of

estimated future cash flows.

The company had the following available-for-sale securities included in the table above: money market funds of \$238 million, U.S. agency securities of \$144 million, U.S. Treasury securities of \$63 million, corporate debt securities of \$99 million and commercial paper of \$14 million. As of December 31, 2008, available-for-sale securities consisted of \$376 million in money market funds and \$41 million in debt securities, of which no individual debt security type was material.

In April 2009, the FASB issued FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP SFAS 157-4). FSP SFAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, and emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

FSP SFAS 157-4 was effective for interim reporting periods ending after June 15, 2009. The company adopted this standard during the second quarter of 2009. The adoption of FSP SFAS 157-4 did not have a material impact on the company's financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP SFAS 115-2 and SFAS 124-2). FSP SFAS 115-2 and SFAS 124-2 provides guidance to determine whether the holder of an investment in a debt security for which changes in fair value are not regularly recognized in earnings should recognize a loss in earnings when the investment is impaired. FSP SFAS 115-2 and SFAS 124-2 also improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the consolidated financial statements. This FSP was effective for interim reporting periods ending after June 15, 2009. The company adopted this standard during the second quarter of 2009. The adoption of FSP SFAS 115-2 and SFAS 124-2 did not have a material impact on the company's financial position, results of operations or cash flows.

(8) In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. This standard is effective for fiscal years beginning after December 15, 2008. The company adopted this standard during the first quarter of 2009.

The company mitigates certain financial exposures, including currency and commodity price risk associated with engineering and construction contracts by utilizing derivative instruments. These instruments are designated as either fair value or cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). The company formally documents its hedge relationships at the inception of the agreements, 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 derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value of the hedged items. The fair value of all derivative 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 derivative instrument is offset against the change in the fair value of the underlying asset through earnings. The effective portion of the contracts' gains or losses due to changes in fair value, associated with the cash flow hedges, are initially recorded as a component of accumulated other comprehensive income (loss) (OCI) and are subsequently reclassified into earnings when the hedged items settle. Any ineffective portion of a derivative's change in fair value is recognized in earnings immediately. The company does not enter into derivative transactions for speculative or trading purposes.

At June 30, 2009, the company had total gross notional amounts of \$127 million of foreign exchange forward contracts and \$82 million of commodity swap forward contracts outstanding relating to engineering and construction contract obligations. The foreign exchange forward contracts are of varying duration, none of which extend beyond April 2011. The commodity swap forward contracts are of varying duration, none of which extend beyond 4 years. All existing hedges are determined to be highly effective. As a result, the impact to earnings due to hedge ineffectiveness was immaterial for the three and six months ended June 30, 2009 and 2008, respectively.

Edgar Filing: FLUOR CORP - Form 10-Q

The fair values of derivatives designated as hedging instruments under SFAS 133 as of June 30, 2009 were as follows:

(in thousands)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity swap forward contracts	Other current assets	\$ 471	Other accrued liabilities	\$ 4,008
Foreign currency contracts	Other current assets	80	Other accrued liabilities	1,436
Commodity swap forward contracts	Other assets	1,219	Noncurrent liabilities	3,712
Foreign currency contracts	Other assets	65	Noncurrent liabilities	251
Total derivatives		\$ 1,835		\$ 9,407

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

The effect of derivative instruments on the Condensed Consolidated Statement of Earnings for the three and six months ended June 30, 2009 was as follows:

SFAS 133 Fair Value Hedges (in thousands)	Location of Gain (Loss) Recognized in Earnings	Amount of Gain (Loss) Recognized in Earnings	
		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Foreign currency contracts	Total cost of revenue	\$ (3,262)	\$ (3,426)
Foreign currency contracts	Corporate administrative and general expense	5,153	6,682
Total		\$ 1,891	\$ 3,256

SFAS 133 Cash Flow Hedges (in thousands)	Amount of Gain (Loss) Recognized in OCI		Location of Loss Reclassified from Accumulated OCI into Earnings	Amount of Loss Reclassified from Accumulated OCI into Earnings	
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Commodity swap forward contracts	\$ 2,607	\$ (61)	Total cost of revenue	\$ (1,286)	\$ (1,447)
Foreign currency contracts	(391)	(1,709)			
Total	\$ 2,216	\$ (1,770)		\$ (1,286)	\$ (1,447)

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost		\$ 11,588		