

FLUOR CORP
Form 10-Q
May 02, 2019
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 March 31, 2019

Or

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

For the transition period from _____ to _____

Commission File Number: 1-16129

FLUOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 33-0927079

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6700 Las Colinas Boulevard

Irving, Texas 75039

(Address of principal executive offices) (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, if any, every Interactive Data File required to be submitted 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 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 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Trading Symbol(s) Name of each exchange on which registered

Common Stock, \$.01 par value per share FLR New York Stock Exchange

As of April 26, 2019, 139,927,317 shares of the registrant's common stock, \$.01 par value, were outstanding.

Table of ContentsFLUOR CORPORATION
FORM 10-Q
TABLE OF CONTENTS

PAGE

Part I: Financial InformationItem 1: Financial StatementsCondensed Consolidated Statement of Earnings for the Three Months Ended March 31, 2019 and 2018 (Unaudited) 2Condensed Consolidated Statement of Comprehensive Income for the Three Months Ended March 31, 2019 and 2018 (Unaudited) 3Condensed Consolidated Balance Sheet as of March 31, 2019 and December 31, 2018 (Unaudited) 4Condensed Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2019 and 2018 (Unaudited) 5Condensed Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2019 and 2018 (Unaudited) 6Notes to Condensed Consolidated Financial Statements (Unaudited) 7Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations 26Item 3: Quantitative and Qualitative Disclosures about Market Risk 35Item 4: Controls and Procedures 35Changes in Consolidated Backlog (Unaudited) 36Part II: Other InformationItem 1: Legal Proceedings 37Item 1A: Risk Factors 37Item 2: Unregistered Sales of Equity Securities and Use of Proceeds 37Item 4: Mine Safety Disclosures 37Item 6: Exhibits 38Signatures 39

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

UNAUDITED

	Three Months Ended March 31,	
(in thousands, except per share amounts)	2019	2018
TOTAL REVENUE	\$4,192,747	\$4,823,770
TOTAL COST OF REVENUE	4,131,060	4,765,975
OTHER (INCOME) AND EXPENSES		
Corporate general and administrative expense	61,051	57,271
Restructuring and other exit costs	27,368	—
Interest expense	18,637	17,112
Interest income	(12,976)	(7,533)
Total cost and expenses	4,225,140	4,832,825
EARNINGS (LOSS) BEFORE TAXES	(32,393)	(9,055)
INCOME TAX EXPENSE	10,915	3,006
NET EARNINGS (LOSS)	(43,308)	(12,061)
LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	15,118	5,529
NET EARNINGS (LOSS) ATTRIBUTABLE TO FLUOR CORPORATION	\$(58,426)	\$(17,590)
BASIC EARNINGS (LOSS) PER SHARE	\$(0.42)	\$(0.13)
DILUTED EARNINGS (LOSS) PER SHARE	\$(0.42)	\$(0.13)
SHARES USED TO CALCULATE EARNINGS PER SHARE		
BASIC	139,776	140,099
DILUTED	139,776	140,099
DIVIDENDS DECLARED PER SHARE	\$0.21	\$0.21

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 UNAUDITED

	Three Months Ended March 31,	
(in thousands)	2019	2018
NET EARNINGS (LOSS)	\$(43,308)	\$(12,061)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation adjustment	41,870	26,358
Ownership share of equity method investees' other comprehensive income (loss)	(2,322)	4,981
Defined benefit pension and postretirement plan adjustments	2,064	1,176
Unrealized gain (loss) on derivative contracts	3,457	(3,602)
Unrealized gain on available-for-sale securities	—	709
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	45,069	29,622
COMPREHENSIVE INCOME	1,761	17,561
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	15,603	5,869
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO FLUOR CORPORATION	\$(13,842)	\$11,692
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)	March 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (\$478,410 and \$391,635 related to variable interest entities (“VIEs”))	\$1,805,777	\$1,764,746
Marketable securities, current (\$80,249 and \$202,481 related to VIEs)	98,733	214,828
Accounts and notes receivable, net (\$203,951 and \$214,339 related to VIEs)	1,380,475	1,534,339
Contract assets (\$388,580 and \$350,814 related to VIEs)	1,588,034	1,544,981
Other current assets (\$6,680 and \$15,660 related to VIEs)	369,589	381,999
Total current assets	5,242,608	5,440,893
Property, plant and equipment (“PP&E”) ((net of accumulated depreciation of \$1,237,066 and \$1,220,802) (net PP&E of \$44,836 and \$41,479 related to VIEs))	985,754	1,013,732
Goodwill	535,051	533,585
Investments	937,456	938,490
Deferred taxes	363,872	342,126
Deferred compensation trusts	354,961	328,814
Other assets (\$42,217 and \$26,578 related to VIEs)	622,012	315,997
TOTAL ASSETS	\$9,041,714	\$8,913,637
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade accounts payable (\$522,229 and \$475,018 related to VIEs)	\$1,543,478	\$1,638,891
Short-term borrowings	35,922	26,887
Contract liabilities (\$204,744 and \$271,692 related to VIEs)	868,950	855,948
Accrued salaries, wages and benefits (\$34,278 and \$28,478 related to VIEs)	659,578	649,486
Other accrued liabilities (\$42,182 and \$49,997 related to VIEs)	419,965	381,301
Total current liabilities	3,527,893	3,552,513
LONG-TERM DEBT DUE AFTER ONE YEAR	1,650,927	1,661,565
NONCURRENT LIABILITIES	746,969	581,509
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 — 140,108,765 and 139,653,824 shares in 2019 and 2018, respectively	1,399	1,396
Additional paid-in capital	94,456	82,106
Accumulated other comprehensive loss	(497,894) (542,478)
Retained earnings	3,354,352	3,422,157
Total shareholders’ equity	2,952,313	2,963,181
Noncontrolling interests	163,612	154,869

Total equity	3,115,925	3,118,050
TOTAL LIABILITIES AND EQUITY	\$9,041,714	\$8,913,637

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FLUOR CORPORATION
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 UNAUDITED

(in thousands)	Three Months Ended	
	March 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	\$ (43,308)	\$ (12,061)
Adjustments to reconcile net earnings (loss) to cash provided (utilized) by operating activities:		
Depreciation of fixed assets	45,264	51,907
Amortization of intangibles	4,567	4,747
(Earnings) loss from equity method investments, net of distributions	2,115	1,854
Gain on sale of property, plant and equipment	(1,858)	(2,153)
Amortization of stock-based awards	13,242	13,917
Deferred compensation trust	(26,145)	1,025
Deferred compensation obligation	28,584	930
Deferred taxes	(25,549)	(37,920)
Net retirement plan accrual (contributions)	(3,577)	(5,235)
Changes in operating assets and liabilities	(13,928)	(151,051)
Other items	3,117	(1,962)
Cash utilized by operating activities	(17,476)	(136,002)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(8,180)	(44,868)
Proceeds from the sales and maturities of marketable securities	124,299	175,784
Capital expenditures	(48,172)	(65,082)
Proceeds from disposal of property, plant and equipment	10,720	16,494
Investments in partnerships and joint ventures	(12,001)	(15,574)
Other items	1,090	128
Cash provided by investing activities	67,756	66,882
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(30,005)	(30,242)
Distributions paid to noncontrolling interests	(10,152)	(23,226)
Capital contributions by noncontrolling interests	4,767	365
Taxes paid on vested restricted stock	(3,549)	(5,455)
Stock options exercised	1,466	4,019
Other items	7,653	(3,440)
Cash utilized by financing activities	(29,820)	(57,979)
Effect of exchange rate changes on cash	20,571	8,978
Increase (decrease) in cash and cash equivalents	41,031	(118,121)
Cash and cash equivalents at beginning of period	1,764,746	1,804,075
Cash and cash equivalents at end of period	\$ 1,805,777	\$ 1,685,954
See Notes to Condensed Consolidated Financial Statements.		

Table of Contents

FLUOR CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands, except per share amounts)	Common Stock		Additional Paid-In Capital	Accumulated		Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount		Other Comprehensive Income (Loss)	Retained Earnings			
BALANCE AS OF DECEMBER 31, 2017	139,918	\$ 1,399	\$ 88,222	\$ (402,242)	\$ 3,654,931	\$ 3,342,310	\$ 150,089	\$ 3,492,399
Net earnings (loss)	—	—	—	—	(17,590)	(17,590)	5,529	(12,061)
Cumulative adjustment for the adoption of ASC 606	—	—	—	—	(338,738)	(338,738)	(963)	(339,701)
Other comprehensive income	—	—	—	29,282	—	29,282	340	29,622
Dividends (\$0.21 per share)	—	—	(88)	—	(29,766)	(29,854)	—	(29,854)
Distributions to noncontrolling interests	—	—	—	—	—	—	(23,226)	(23,226)
Capital contributions by noncontrolling interests	—	—	—	—	—	—	365	365
Other noncontrolling interest transactions	—	—	880	—	—	880	862	1,742
Stock-based plan activity	680	7	10,014	—	—	10,021	—	10,021
BALANCE AS OF MARCH 31, 2018	140,598	\$ 1,406	\$ 99,028	\$ (372,960)	\$ 3,268,837	\$ 2,996,311	\$ 132,996	\$ 3,129,307

(in thousands, except per share amounts)	Common Stock		Additional Paid-In Capital	Accumulated		Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount		Other Comprehensive Income (Loss)	Retained Earnings			
BALANCE AS OF DECEMBER 31, 2018	139,654	\$ 1,396	\$ 82,106	\$ (542,478)	\$ 3,422,157	\$ 2,963,181	\$ 154,869	\$ 3,118,050
Net earnings (loss)	—	—	—	—	(58,426)	(58,426)	15,118	(43,308)
Cumulative adjustment for the adoption of ASC 842	—	—	—	—	20,544	20,544	—	20,544
Other comprehensive income	—	—	—	44,584	—	44,584	485	45,069
Dividends (\$0.21 per share)	—	—	218	—	(29,923)	(29,705)	—	(29,705)
Distributions to noncontrolling interests	—	—	—	—	—	—	(10,152)	(10,152)
Capital contributions by noncontrolling interests	—	—	—	—	—	—	4,767	4,767
Other noncontrolling interest transactions	—	—	1,035	—	—	1,035	(1,475)	(440)

Edgar Filing: FLUOR CORP - Form 10-Q

Stock-based plan activity	455	3	11,097	—	—	11,100	—	11,100
BALANCE AS OF								
MARCH 31, 2019	140,109	\$ 1,399	\$ 94,456	\$ (497,894) \$3,354,352	\$ 2,952,313	\$ 163,612	\$ 3,115,925

6

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 10-K"). Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three months ended March 31, 2019 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 March 31, 2019 and December 31, 2018 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.

In the first quarter of 2019, the company adopted Accounting Standards Update ("ASU") 2016-02 (ASC Topic 842), "Leases" using the modified retrospective method in which the new guidance was applied to leases that existed or were entered into on or after January 1, 2019. Results for the reporting period beginning on January 1, 2019 have been presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with previous guidance. See Note 3 for further discussion of the adoption and the impact on the company's financial statements.

(2) Recent Accounting Pronouncements

New accounting pronouncements implemented by the company during the first quarter of 2019 are discussed below or in the related notes, where appropriate.

In the first quarter of 2019, the company adopted ASU 2016-02 (ASC Topic 842), "Leases" and related ASUs. See Note 3 for further discussion of the adoption and the impact on the company's financial statements.

In the first quarter of 2019, the company adopted ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," under which the company did not elect to reclassify the income tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the enactment of comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act. As a result, there was no impact on the company's financial position, results of operations or cash flows.

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

In November 2018, the FASB issued ASU 2018-18, "Clarifying the Interaction between Topic 808 and Topic 606." This ASU clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. ASU 2018-18 is effective for interim and annual reporting periods beginning after December 15, 2019. Management does not expect the adoption of ASU 2018-18 to have a material impact on the company's financial position, results of operations or cash flows.

In October 2018, the FASB issued ASU 2018-17, "Targeted Improvements to Related Party Guidance for Variable Interest Entities." This ASU amends the guidance for determining whether a decision-making fee is a variable interest. ASU 2018-17 is effective for interim and annual reporting periods beginning after December 15, 2019. Management does not expect the adoption of ASU 2018-17 to have a material impact on the company's financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” This ASU requires customers in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. Management does not expect the adoption of ASU 2018-15 to 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

UNAUDITED

In August 2018, the FASB issued ASU 2018-14, "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans." This ASU amends ASC 715 to add, remove and clarify certain disclosure requirements related to defined benefit pension and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, with early adoption permitted. Management does not expect the adoption of ASU 2018-14 to have any impact on the company's financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This ASU amends ASC 820 to add, remove and modify certain disclosure requirements for fair value measurements. For example, public companies will now be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. Management does not expect the adoption of ASU 2018-13 to have any impact on the company's financial position, results of operations or 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 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 is continuing to assess the impact of adopting ASU 2016-13 on the company's financial position, results of operations and cash flows.

The company adopted ASU 2014-09 (ASC Topic 606), "Revenue from Contracts with Customers" in the first quarter of 2018. See the 2018 10-K for a further discussion of the adoption and the impact on the company's financial statements. In accordance with ASU 2017-13, certain of the company's unconsolidated partnerships and joint ventures will not adopt ASC Topic 606 until the fourth quarter of 2019, at which time the company expects to record a cumulative effect adjustment which is not expected to be significant.

(3) Leases

On January 1, 2019, the company adopted ASC Topic 842, "Leases," including the following ASUs: ASU 2016-02, ASU 2017-13, ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01. The new guidance requires the recognition of right-of-use assets and lease liabilities on the balance sheet for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Lessees are now required to classify leases as either finance or operating leases. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The company elected to utilize the package of practical expedients in ASC 842-10-65-1(f) that, upon adoption of ASC 842, allows entities to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (e.g., operating or finance lease) existing as of the date of adoption and (3) not reassess initial direct costs for any existing leases. The company elected to utilize the practical expedient in ASC 842-10-65-1(gg) in which an entity need not assess whether existing land easements not previously accounted for as leases contain a lease under ASC 842. The company also elected to utilize the practical expedient in ASC 842-10-15-37 in which the company has chosen to account for each separate lease component of a contract and its associated nonlease components as a single lease component.

The company adopted ASC 842 using the modified retrospective method, and accordingly, the new guidance was applied retrospectively to leases that existed as of January 1, 2019 (the date of initial application). As a result, the company has recorded total right-of-use assets of \$282 million, total current lease liabilities of \$72 million, total

noncurrent lease liabilities of \$222 million and a cumulative effect adjustment to increase retained earnings by \$21 million (net of deferred taxes of \$6 million) as of January 1, 2019. The increase in retained earnings primarily resulted from the recognition of previously deferred gains associated with two sale and leaseback transactions, as allowed under ASC 842-10-65-1(ee). The adoption of ASC 842 did not have a material impact on the company's results of operations or any impact on the company's cash flows.

The company's right-of use assets and lease liabilities primarily relate to office facilities, equipment used in connection with long-term construction contracts and other personal property. Certain of the company's facility and equipment leases include one or more options to renew, with renewal terms that can extend the lease term up to 10 years. The exercise of lease renewal options is at the company's discretion. Renewal periods are included in the expected lease term if they are reasonably certain of being exercised by the company. Certain leases also include options to purchase the leased property. None of the company's lease agreements contain material residual value guarantees or material restrictions or covenants.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Long-term leases (leases with terms greater than 12 months) are recorded on the consolidated balance sheet at the present value of the minimum lease payments not yet paid. The company uses its incremental borrowing rate to determine the present value of the lease when the rate implicit in the lease is not readily determinable. Certain lease contracts contain nonlease components such as maintenance, utilities, fuel and operator services. The company has made an accounting policy election, as allowed under ASC 842-10-15-37 and discussed above, to capitalize both the lease component and nonlease components of its contracts as a single lease component for all of its right-of-use assets. From time to time, certain service or purchase contracts may contain an embedded lease.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not recorded on the consolidated balance sheet and are expensed on a straight-line basis over the lease term. The majority of the company's short-term leases relate to equipment used on construction projects. These leases are entered into at agreed upon hourly, daily, weekly or monthly rental rates for an unspecified duration and typically have a termination for convenience provision. Such equipment leases are considered short-term in nature unless it is reasonably certain that the equipment will be leased for a term greater than 12 months.

The components of lease expense for the three months ended March 31, 2019 were as follows:

	Three Months Ended March 31, 2019
(in thousands)	
Operating lease cost	\$22,406
Finance lease cost	
Amortization of right-of-use assets	393
Interest on lease liabilities	18
Variable lease cost ⁽¹⁾	4,546
Short-term lease cost	36,286
Sublease income	(11,108)
Total lease cost	\$52,541

(1) Primarily relates to rent escalation due to cost of living indexation and payments for property taxes, insurance or common area maintenance based on actual assessments.

Information related to the company's right-of use assets and lease liabilities as of March 31, 2019 was as follows:

Lease Assets / Liabilities	Balance Sheet Classification	March 31, 2019
(in thousands)		
Right-of-use assets		
Operating lease assets	Other assets	\$312,262
Finance lease assets	Other assets	1,504
Total right-of-use assets		\$313,766
Lease liabilities		
Operating lease liabilities, current	Other accrued liabilities	\$67,428

Edgar Filing: FLUOR CORP - Form 10-Q

Operating lease liabilities, noncurrent	Noncurrent liabilities	255,190
Finance lease liabilities, current	Other accrued liabilities	1,009
Finance lease liabilities, noncurrent	Noncurrent liabilities	947
Total lease liabilities		\$324,574

9

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Supplemental information related to the company's leases for the three months ended March 31, 2019 was as follows:

	Three Months Ended March 31, 2019
(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$22,570
Operating cash flows from finance leases	18
Financing cash flows from finance leases	428
Right-of-use assets obtained in exchange for new operating lease liabilities	51,240
Right-of-use assets obtained in exchange for new finance lease liabilities	—
Weighted-average remaining lease term - operating leases	6.97 years
Weighted-average remaining lease term - finance leases	1.94 years
Weighted-average discount rate - operating leases	3.45 %
Weighted-average discount rate - finance leases	3.27 %

Total remaining lease payments under both the company's operating and finance leases are as follows:

Year Ended December 31,	Operating Leases	Finance Leases
(in thousands)		
Remainder of 2019	\$59,119	\$1,140
2020	72,084	757
2021	52,926	111
2022	42,317	—
2023	34,940	—
Thereafter	100,766	—
Total lease payments	\$362,152	\$2,008
Less: Interest	(39,534)	(52)
Present value of lease liabilities	\$322,618	\$1,956

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(4) Other Comprehensive Income (Loss)

The tax effects of the components of other comprehensive income (loss) (“OCI”) for the three months ended March 31, 2019 and 2018 are as follows:

(in thousands)	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
	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	\$43,884	\$(2,014)	\$41,870	\$26,918	\$(560)	\$26,358
Ownership share of equity method investees’ other comprehensive income (loss)	(3,495)	1,173	(2,322)	6,259	(1,278)	4,981
Defined benefit pension and postretirement plan adjustments	2,210	(146)	2,064	1,517	(341)	1,176
Unrealized gain (loss) on derivative contracts	4,634	(1,177)	3,457	(4,530)	928	(3,602)
Unrealized gain on available-for-sale securities	—	—	—	1,134	(425)	709
Total other comprehensive income	47,233	(2,164)	45,069	31,298	(1,676)	29,622
Less: Other comprehensive income attributable to noncontrolling interests	485	—	485	340	—	340
Other comprehensive income attributable to Fluor Corporation	\$46,748	\$(2,164)	\$44,584	\$30,958	\$(1,676)	\$29,282

The changes in accumulated other comprehensive income (“AOCI”) balances by component (after-tax) for the three months ended March 31, 2019 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	Accumulated Other Comprehensive Income (Loss), Net
		Share of Equity Method Investees’ Other Comprehensive Income (Loss)	Defined Benefit Pension and Postretirement Plans			
Attributable to Fluor Corporation:						
Balance as of December 31, 2018	\$(308,747)	\$(23,672)	—	\$(204,649)	\$(5,410)	\$(542,478)
Other comprehensive income (loss) before reclassifications	41,385	(2,464)	—	—	2,696	41,617
Amounts reclassified from AOCI	—	142	2,064	—	761	2,967
Net other comprehensive income (loss)	41,385	(2,322)	2,064	—	3,457	44,584
Balance as of March 31, 2019	\$(267,362)	\$(25,994)	—	\$(202,585)	\$(1,953)	\$(497,894)
Attributable to Noncontrolling Interests:						
Balance as of December 31, 2018	\$(3,701)	\$ —	—	—	—	\$(3,701)
Other comprehensive income before reclassifications	485	—	—	—	—	485
Amounts reclassified from AOCI	—	—	—	—	—	—
Net other comprehensive income	485	—	—	—	—	485
Balance as of March 31, 2019	\$(3,216)	\$ —	—	—	—	\$(3,216)

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The changes in AOCI balances by component (after-tax) for the three months ended March 31, 2018 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, 2017	\$(211,177)	\$ (32,614)	\$ (152,058)	\$ (5,684)	\$ (709)	\$ (402,242)
Other comprehensive income (loss) before reclassifications	26,018	4,476	—	(3,761)	—	26,733
Amounts reclassified from AOCI	—	505	1,176	159	709	2,549
Net other comprehensive income (loss)	26,018	4,981	1,176	(3,602)	709	29,282
Balance as of March 31, 2018	\$(185,159)	\$ (27,633)	\$ (150,882)	\$ (9,286)	\$ —	\$ (372,960)
Attributable to Noncontrolling Interests:						
Balance as of December 31, 2017	\$(1,462)	\$ —	\$ —	\$ —	\$ —	\$ (1,462)
Other comprehensive income before reclassifications	340	—	—	—	—	340
Amounts reclassified from AOCI	—	—	—	—	—	—
Net other comprehensive income	340	—	—	—	—	340
Balance as of March 31, 2018	\$(1,122)	\$ —	\$ —	\$ —	\$ —	\$ (1,122)

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 March 31, 2019 2018	
Component of AOCI:			
Ownership share of equity method investees' other comprehensive loss	Total cost of revenue	\$(189)	\$(696)
Income tax benefit	Income tax expense	47	191
Net of tax		\$(142)	\$(505)
Defined benefit pension plan adjustments	Corporate general and administrative expense	\$(2,210)	\$(1,516)
Income tax benefit	Income tax expense	146	340
Net of tax		\$(2,064)	\$(1,176)
Unrealized gain (loss) on derivative contracts:			
Foreign currency contracts	Various accounts ⁽¹⁾	\$(845)	\$214
Interest rate contracts	Interest expense	(420)	(420)
Income tax benefit	Income tax expense	504	47
Net of tax		\$(761)	\$(159)
Unrealized loss on available-for-sale securities	Corporate general and administrative expense	\$—	\$(1,134)
Income tax benefit	Income tax expense	—	425
Net of tax		\$—	\$(709)

(1) Gains and losses on foreign currency derivative contracts were reclassified to "Total cost of revenue" and "Corporate general and administrative expense."

As a result of the Tax Cuts and Jobs Act, certain income tax effects related to items in AOCI have been stranded in AOCI, and the company did not elect to reclassify these stranded tax effects to retained earnings. The tax effects remaining in AOCI are released only when all related units of account are liquidated, sold or extinguished (i.e., the portfolio approach).

(5) Income Taxes

The effective tax rates for the three months ended March 31, 2019 and 2018 were (33.7) percent and (33.2) percent, respectively. The effective rate for the three months ended March 31, 2019 was unfavorably impacted by the U.S. tax on global intangible low-tax income and foreign losses for which no tax benefit could be recognized. The effective rate for the three months ended March 31, 2018 was unfavorably impacted by higher tax rates on foreign earnings and the inability to offset the losses recognized in certain jurisdictions against the income recognized in other jurisdictions. Both periods benefitted from earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. Due to the low level of operating results for both periods, the items impacting the effective tax rates had a disproportionately large percentage impact.

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.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(6) Cash Paid for Interest and Taxes

Cash paid for interest was \$28 million and \$24 million for the three months ended March 31, 2019 and 2018, respectively. Income tax payments, net of refunds, were \$33 million and \$36 million during the three-month periods ended March 31, 2019 and 2018, respectively.

(7) Earnings Per Share

Diluted earnings per share (“EPS”) reflects the assumed exercise or conversion of all dilutive securities using the treasury stock method. The calculations of the basic and diluted EPS for the three months ended March 31, 2019 and 2018 are presented below:

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2019	2018
Net earnings (loss) attributable to Fluor Corporation	\$(58,426)	\$(17,590)
Basic EPS attributable to Fluor Corporation:		
Weighted average common shares outstanding	139,776	140,099
Basic earnings (loss) per share	\$(0.42)	\$(0.13)
Diluted EPS attributable to Fluor Corporation:		
Weighted average common shares outstanding	139,776	140,099
Diluted effect:		
Employee stock options, restricted stock units and shares and Value Driver Incentive units ⁽¹⁾	—	—
Weighted average diluted shares outstanding	139,776	140,099
Diluted earnings (loss) per share	\$(0.42)	\$(0.13)
Anti-dilutive securities not included above	4,776	4,159

Employee stock options, restricted stock units and shares, and Value Driver Incentive units of 740,000 and (1) 1,143,000 were excluded from weighted average diluted shares outstanding for the three months ended March 31, 2019 and 2018, respectively, as the shares would have an anti-dilutive effect on the net loss.

(8) 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 March 31, 2019 and December 31, 2018:

(in thousands)	March 31, 2019				December 31, 2018			
	Fair Value Hierarchy				Fair Value Hierarchy			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Deferred compensation trusts ⁽¹⁾	\$28,728	\$28,728	\$—	\$—	—\$26,690	\$26,690	\$—	\$—
Derivative assets ⁽²⁾								
Foreign currency contracts	12,965	—	12,965	—	17,346	—	17,346	—
Liabilities:								
Derivative liabilities ⁽²⁾								
Foreign currency contracts	\$10,200	\$—	\$10,200	\$—	—\$18,342	\$—	\$18,342	\$—

Consists of registered money market funds and an equity index fund valued at fair value. These investments, which (1) 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.

See Note 9 for the classification of foreign currency contracts on the Condensed Consolidated Balance Sheet.

(2) 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.

During the three months ended March 31, 2018, proceeds from sales and maturities of available-for-sale securities were \$175 million. There were no sales or maturities of available-for-sale securities during the three months ended March 31, 2019.

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	March 31, 2019		December 31, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash ⁽¹⁾	Level 1	\$1,036,957	\$1,036,957	\$1,091,868	\$1,091,868
Cash equivalents ⁽²⁾	Level 2	768,820	768,820	672,878	672,878
Marketable securities, current ⁽³⁾	Level 2	98,733	98,733	214,828	214,828
Notes receivable, including noncurrent portion ⁽⁴⁾	Level 3	34,139	34,139	32,645	32,645
Liabilities:					
1.750% Senior Notes ⁽⁵⁾	Level 2	\$558,564	\$588,216	\$569,372	\$589,864
3.5% Senior Notes ⁽⁵⁾	Level 2	494,520	501,890	494,280	484,790
4.250% Senior Notes ⁽⁵⁾	Level 2	594,029	601,230	593,871	583,200
Other borrowings, including noncurrent portion ⁽⁶⁾	Level 2	39,736	39,736	30,929	30,929

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

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

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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.

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.

The fair value of the 1.750% Senior Notes, 3.5% Senior Notes and 4.250% Senior Notes was estimated based on quoted market prices for similar issues.

Other borrowings primarily represent bank loans and other financing arrangements which mature within one year. The carrying amount of borrowings under these arrangements approximates fair value because of the short-term maturity.

(9) 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 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 derivatives instruments or hedging instruments to mitigate the risk. The company's 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, its risk management objectives and strategies for undertaking the hedge transaction, and the initial quantitative assessment of the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged items. The company subsequently assesses hedge effectiveness qualitatively, unless the facts and circumstances of the hedge relationship change to an extent that the company can no longer assert qualitatively that the hedge is highly effective. The fair values of all hedging instruments are recognized as assets or liabilities at the balance sheet date. For fair value hedges, 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 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. For derivatives that are not designated or do not qualify as hedging instruments, the change in the fair value of the derivative is offset against the change in the fair value of the underlying asset or liability through 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 March 31, 2019, the company had total gross notional amounts of \$416 million of foreign currency contracts outstanding (primarily related to the British Pound, Kuwaiti Dinar, Indian Rupee, Philippine Peso, South Korean Won and Chinese Yuan) that were designated as hedging instruments. The foreign currency contracts are of varying duration, none of which extend beyond May 2021.

The fair values of derivatives designated as hedging instruments under ASC 815 as of March 31, 2019 and December 31, 2018 were as follows:

	Asset Derivatives	Liability Derivatives
(in thousands)	Balance Sheet	Balance Sheet

Edgar Filing: FLUOR CORP - Form 10-Q

	Location	March 31, 2019	December 31, 2018	Location	March 31, 2019	December 31, 2018
Foreign currency contracts	Other current assets	\$ 9,614	\$ 12,861	Other accrued liabilities	\$ 9,858	\$ 16,582
Foreign currency contracts	Other assets	1,975	2,669	Noncurrent liabilities	267	1,698
Total		\$ 11,589	\$ 15,530		\$ 10,125	\$ 18,280

16

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The after-tax amount of gain (loss) recognized in OCI and reclassified from AOCI into earnings associated with the derivative instruments designated as cash flow hedges for the three months ended March 31, 2019 and 2018 was as follows:

	After-Tax Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss)	After-Tax Amount of Gain (Loss) Reclassified from AOCI into Earnings	
	Three Months Ended March 31,			Three Months Ended March 31,	
Cash Flow Hedges (in thousands)	2019	2018		2019	2018
Foreign currency contracts	\$ 2,696	\$ (3,761)	Total cost of revenue	\$ (499)	\$ 103
Interest rate contracts	—	—	Interest expense	(262)	(262)
Total	\$ 2,696	\$ (3,761)		\$ (761)	\$ (159)

As of March 31, 2019, the company also had total gross notional amounts of \$31 million of foreign currency contracts outstanding that were not designated as hedging instruments. These contracts primarily related to engineering and construction contract obligations denominated in nonfunctional currencies. As of March 31, 2019, the company had total gross notional amounts of \$29 million associated with contractual foreign currency payment provisions that were deemed embedded derivatives. Net losses associated with the company's derivatives and embedded derivatives included in "Total cost of revenue" and "Corporate general and administrative expense" were less than \$0.1 million and \$1 million for the three months ended March 31, 2019 and 2018, respectively.

(10) Retirement Benefits

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

(in thousands)	Location in Condensed	Three Months Ended March 31,	
		2019	2018
Service cost	Total cost of revenue	\$3,981	\$4,671
Interest cost	Corporate general and administrative expense	4,975	5,867
Expected return on assets	Corporate general and administrative expense	(8,279)	(10,256)
Amortization of prior service credit	Corporate general and administrative expense	(225)	(243)
Recognized net actuarial loss	Corporate general and administrative expense	2,619	1,911
Net periodic pension expense		\$3,071	\$1,950

The company currently expects to contribute up to \$15 million into its defined benefit pension plans during 2019, which is expected to be in excess of the minimum funding required. During the three months ended March 31, 2019, contributions of approximately \$9 million were made by the company.

(11) Financing Arrangements

As of March 31, 2019, the company had both committed and uncommitted lines of credit available to be used for revolving loans and letters of credit. As of March 31, 2019, letters of credit and borrowings totaling \$1.5 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 contains customary financial and restrictive covenants, including a debt-to-capitalization ratio that cannot exceed 0.6 to 1.0 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.

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.

17

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

In August 2018, the company issued \$600 million of 4.250% Senior Notes (the “2018 Notes”) due September 15, 2028 and received proceeds of \$595 million, net of underwriting discounts. Interest on the 2018 Notes is payable semi-annually on March 15 and September 15 of each year, beginning on March 15, 2019. Prior to June 15, 2028, the company may redeem the 2018 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 June 15, 2028, the company may redeem the 2018 Notes at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption.

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.

For the 2018 Notes, the 2016 Notes and the 2014 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 2018 Notes, the 2016 Notes and the 2014 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. The company may, from time to time, repurchase the 2018 Notes, the 2016 Notes and the 2014 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.

Other borrowings of \$40 million as of March 31, 2019 and \$31 million as of December 31, 2018 primarily represent bank loans and other financing arrangements associated with Stork.

As of March 31, 2019, the company was in compliance with all of the financial covenants related to its debt agreements.

(12) 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 2018 10-K. In the first quarter of 2019 and 2018, restricted stock units totaling 874,629 and 570,969, respectively, were granted to executives, at weighted-average grant date fair values of \$38.30 per share and \$58.15 per share, respectively. Restricted stock units granted to executives in 2019 and 2018 generally vest ratably over three years. The fair value of restricted stock units represents the closing price of the company’s common stock on the date of grant.

During the first quarter of 2018, stock options for the purchase of 33,615 shares at a weighted-average exercise price of \$58.15 per share 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 2018 vest ratably over three years and expire ten years after the grant date. There were no stock options awarded to executives during the first quarter of 2019.

In the first quarter of 2019 and 2018, performance-based Value Driver Incentive (“VDI”) units totaling 350,532 and 206,598, 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 quarter of 2019, units totaling 116,844, 68,866

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

and 72,601 under the 2019, 2018 and 2017 VDI plans, respectively, were granted at weighted-average grant date fair values of \$39.72 per share, \$42.24 per share and \$35.18 per share, respectively. For awards granted under the 2019, 2018 and 2017 VDI plans, the number of units are adjusted at the end of each performance period based on achievement of certain performance targets and market conditions, as defined in the VDI award agreements. VDI units granted under the 2017 VDI plan are subject to a post-vest holding period of three years. 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 effect of the market condition and for the post-vest holding period discount, when applicable. Units granted under the 2019, 2018 and 2017 VDI plans can only be settled in company stock and are accounted for as equity awards in accordance with ASC 718.

(13) 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 months ended March 31, 2019 and 2018, net earnings attributable to noncontrolling interests were \$15 million and \$6 million, respectively. Income taxes associated with earnings attributable to noncontrolling interests were immaterial in both periods presented.

Distributions paid to noncontrolling interests were \$10 million and \$23 million for the three months ended March 31, 2019 and 2018, respectively. Capital contributions by noncontrolling interests were \$5 million and \$0.4 million for the three months ended March 31, 2019 and 2018, respectively.

(14) 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.

In May 2018, purported shareholders filed complaints against Fluor Corporation and certain of its current and former executives in the United States District Court for the Northern District of Texas. The plaintiffs purport to represent a class of shareholders who purchased or otherwise acquired Fluor common stock from August 14, 2013 through May 3, 2018, and seek to recover damages arising from alleged violations of federal securities laws. In December 2018, the court appointed co-lead plaintiffs and co-lead counsel. The co-lead plaintiffs filed an amended, consolidated complaint in March 2019. It is anticipated that the company will respond, likely with a motion to dismiss the matter, by July 2019. While no assurance can be given as to the ultimate outcome of this matter, the company does not believe it is probable that a loss will be incurred.

In September 2018, two separate purported shareholders' derivative actions were filed against the members of the Board of Directors of Fluor Corporation, a past Board member and the estate of a past Board member, as well as certain of Fluor's executives in the Texas District Court for Dallas County, Texas. Fluor Corporation is named as a nominal defendant in the actions. These derivative actions purport to assert claims on behalf of Fluor Corporation and largely make the same allegations as contained in the securities class action matter discussed above and seek similar relief. In October 2018, the court consolidated the two actions and later issued an initial scheduling order. The parties are conferring on the schedule and have agreed on a stay of the case until the company's motion to dismiss is ruled upon in the securities class action matter. While no assurance can be given as to the ultimate outcome of this matter, the company does not believe it is probable that a loss will be incurred.

Fluor Australia Ltd., a wholly-owned subsidiary of the company ("Fluor Australia"), completed a cost reimbursable engineering, procurement and construction management services project for Santos Ltd. ("Santos") involving 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. Santos has joined Fluor Corporation to the matter on the basis of a parent company guarantee issued for the project. The company believes that the claims asserted by Santos are without merit and is vigorously defending these claims. While no assurance can be given as to the ultimate outcome 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.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Other Matters

The company has made claims arising from the performance under its contracts. The company recognizes revenue for certain claims (including change orders in dispute and unapproved change orders in regard to both scope and price) when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The company estimates the amount of revenue to be recognized on claims using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount. Factors considered in determining whether revenue associated with claims should be recognized include the following: (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 March 31, 2019 and December 31, 2018, the company had recorded \$175 million and \$166 million, respectively, of claim revenue for costs incurred to date and such costs are included in contract assets. 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 \$18 million as of both March 31, 2019 and December 31, 2018. The company believes the ultimate recovery of amounts related to these claims and back charges is probable in accordance with ASC 606.

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. The company's operations are subject to and affected by federal, state and local laws and regulations regarding the protection of the environment. The company maintains reserves for potential future environmental cost where such obligations are either known or considered probable, and can be reasonably estimated. The company believes, based upon present information available to it, that its reserves with respect to future environmental cost are adequate and such future cost will not have a material effect on the company's consolidated financial position, results of operations or liquidity.

(15) 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 \$19 billion as of March 31, 2019. 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 March 31, 2019 and December 31, 2018 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.

(16) 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

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 \$113 million and \$154 million as of March 31, 2019 and December 31, 2018, respectively. 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 \$27 million as of both March 31, 2019 and December 31, 2018, respectively.

For unconsolidated construction partnerships and joint ventures, 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 company also executes projects through collaborative arrangements for which the company recognizes its relative share of revenue and cost. 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 \$919 million and \$921 million as of March 31, 2019 and December 31, 2018, respectively, and were classified under “Investments” and “Other accrued liabilities” on the Condensed Consolidated Balance Sheet.

COOEC Fluor Heavy Industries Co., Ltd. (“CFHI”) is 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 has a future funding commitment of \$26 million that is expected to be paid in the fourth quarter of 2019.

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.

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 \$270 million and \$273 million as of March 31, 2019 and December 31, 2018, respectively. Some of the company’s VIEs have debt; however, such debt is typically non-recourse in nature. The company’s maximum exposure to loss as a result of its investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding necessary to satisfy the contractual obligations of the VIE. Future funding commitments as of March 31, 2019 for the unconsolidated VIEs were \$81 million.

In some cases, the company is required to consolidate certain VIEs. As of March 31, 2019, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were \$1.3 billion and \$816 million, respectively. As of December 31, 2018, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

\$1.3 billion and \$825 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 15 for a further discussion of such agreements.

(17) Operating Information by Segment and Geographic Area

During the first quarter of 2019, services provided to the commercial nuclear market, as well as NuScale, were moved from the Mining, Industrial, Infrastructure & Power segment to the Government segment to align with the manner in which the chief executive officer manages the business and allocates resources and to better reflect the interaction of the commercial and government nuclear markets. Segment operating information and assets for 2018 have been recast to reflect these changes.

Operating information by reportable segment is as follows:

	Three Months Ended March 31,	
External Revenue (in millions)	2019	2018
Energy & Chemicals	\$1,476.6	\$1,943.0
Mining, Industrial, Infrastructure & Power	1,381.2	907.0
Government	784.7	1,330.5
Diversified Services	550.2	643.3
Total external revenue	\$4,192.7	\$4,823.8

Intercompany revenue for the Diversified Services segment, excluded from the amounts shown above, was \$95 million and \$129 million for the three months ended March 31, 2019 and 2018, respectively.

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.

	Three Months Ended March 31,	
Segment Profit (Loss) (in millions)	2019	2018
Energy & Chemicals	\$19.4	\$105.7
Mining, Industrial, Infrastructure & Power	0.4	(120.4)
Government	16.6	48.2
Diversified Services	10.2	18.8
Total segment profit	\$46.6	\$52.3

Energy & Chemicals. Segment profit during the three months ended March 31, 2019 was adversely affected by pre-tax charges of \$53 million (or \$0.29 per diluted share) resulting from forecast revisions for estimated cost growth on an offshore project and \$31 million (or \$0.22 diluted share) resulting from the resolution of certain close-out matters with a customer.

Mining, Industrial, Infrastructure & Power. Segment profit during the three months ended March 31, 2019 and 2018 was adversely affected by pre-tax charges totaling \$26 million (or \$0.14 per diluted share) and \$125 million (or \$0.69 per diluted share), respectively, resulting from forecast revisions for estimated cost growth at certain fixed-price, gas-fired power plant projects.

The company is currently in a dispute with a customer over costs totaling approximately \$110 million that were allegedly incurred by the customer in connection with one of the gas-fired power plant projects discussed above. The customer withheld payment of certain invoices outstanding as of March 31, 2019 and drew down in January 2019 on a

letter of credit issued on behalf of the company. The company believes that certain of the customer's claims are without merit and is vigorously pursuing recovery of the amounts from the customer. Based upon its evaluation as of March 31, 2019, the company does not believe it is probable that a loss will be incurred in excess of amounts reserved for this matter.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Government. Segment profit for both periods included the operations of NuScale, which are primarily for research and development activities associated with the licensing and commercialization of small modular nuclear reactor technology. A discussion of the cost-sharing agreement between NuScale and the U.S. Department of Energy (“DOE”) is provided in the Notes to Consolidated Financial Statements included in the 2018 10-K. NuScale expenses included in the determination of segment profit were \$16 million and \$23 million for the three months ended March 31, 2019 and 2018, respectively. NuScale expenses for the 2019 and 2018 periods were reported net of qualified reimbursable expenses of \$13 million and \$15 million, respectively.

The company currently serves as a subcontractor to a commercial client on a U.S. government project where the company’s forecast is based on its assessment of the probable resolution of certain change orders currently under discussion with the client, which if not achieved, could adversely affect revenue and segment profit.

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

Reconciliation of Total Segment Profit to Earnings (Loss) Before Taxes (in millions)	Three Months Ended	
	March 31, 2019	March 31, 2018
Total segment profit	\$46.6	\$52.3
Corporate general and administrative expense	(61.0)	(57.3)
Restructuring and other exit costs	(27.4)	—
Interest income (expense), net	(5.7)	(9.6)
Earnings attributable to noncontrolling interests	15.1	5.5
Earnings (loss) before taxes	\$(32.4)	\$(9.1)

Total assets by segment are as follows:

Total Assets by Segment (in millions)	March 31, December 31,	
	2019	2018
Energy & Chemicals	\$ 1,497.1	\$ 1,525.1
Mining, Industrial, Infrastructure & Power	1,229.6	1,193.2
Government	882.6	948.2
Diversified Services	1,865.8	1,841.0

Total assets in the Energy & Chemicals segment as of March 31, 2019 included aged and disputed accounts receivable of \$108 million related to a cost reimbursable, chemicals project in the Middle East. Management continues to pursue collection of these amounts from the customer and does not believe that the customer has a contractual basis for withholding payment. The company does not believe it is probable that losses will be incurred in excess of amounts reserved for this matter.

Total assets in the Government segment as of March 31, 2019 included accounts receivable related to two subcontracts with Westinghouse Electric Company LLC (“Westinghouse”) to manage the construction workforce at two nuclear power plant projects in South Carolina (“V.C. Summer”) and 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. In the third quarter of 2017, the V.C. Summer project was canceled by the owner. In the fourth quarter of 2017, the remaining scope of work on the Plant Vogtle project was transferred to a new contractor. In addition to amounts due for post-petition services, total assets as of March 31, 2019 included amounts due of \$66 million and \$2 million for services provided to the V.C. Summer and Plant Vogtle projects, respectively, prior to the date of the bankruptcy petition. The company has filed mechanic’s liens in South Carolina against the property of the owner of the V.C. Summer project for amounts due for pre-petition services rendered to Westinghouse. Based on the company’s evaluation of available information, the company does not expect the close-out of these projects to have a material impact on the company’s results of operations.

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The following table presents revenue disaggregated by the geographic area where the work was performed for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
External Revenue (in millions)	2019	2018
United States	\$1,670.5	\$2,319.0
Canada	195.5	75.7
Asia Pacific (includes Australia)	430.2	231.7
Europe	928.3	1,185.8
Central and South America	543.1	541.0
Middle East and Africa	425.1	470.6
Total external revenue	\$4,192.7	\$4,823.8

(18) Contract Assets and Liabilities

Contract assets represent revenue recognized in excess of amounts billed and include unbilled receivables (typically for cost reimbursable contracts) of \$1.1 billion as of both March 31, 2019 and December 31, 2018 and contract work in progress (typically for fixed-price contracts) of \$501 million and \$493 million as of March 31, 2019 and December 31, 2018, respectively. Unbilled receivables, which represent an unconditional right to payment subject only to the passage of time, are reclassified to accounts receivable when they are billed under the terms of the contract. Advances that are payments on account of contract assets of \$421 million and \$445 million as of March 31, 2019 and December 31, 2018, respectively, have been deducted from contract assets. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the client. As of both March 31, 2019 and December 31, 2018, the company had \$26 million in pre-contract costs classified as a current asset under contract assets on the Condensed Consolidated Balance Sheet. The company anticipates that substantially all incurred cost associated with contract assets as of March 31, 2019 will be billed and collected within one year.

Contract liabilities represent amounts billed to clients in excess of revenue recognized to date. The company recognized revenue of \$571 million and \$510 million during the three months ended March 31, 2019 and 2018, respectively, that was included in contract liabilities as of January 1, 2019 and 2018, respectively.

(19) Remaining Unsatisfied Performance Obligations

The company's remaining unsatisfied performance obligations ("RUPO") as of March 31, 2019 represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. The company had \$37 billion in RUPO as of March 31, 2019.

The company estimates that its RUPO will be satisfied over the following periods:

(in millions)	March 31, 2019
Within 1 year	\$ 16,674
1 to 2 years	10,336
Thereafter	9,926
Total remaining unsatisfied performance obligations	\$ 36,936

Although RUPO reflects business that is considered to be firm, cancellations, deferrals or scope adjustments may occur. RUPO is adjusted to reflect any known project cancellations, revisions to project scope and cost, foreign

currency exchange fluctuations and project deferrals, as appropriate.

24

Table of Contents

FLUOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(20) Restructuring and Other Exit Costs

During the first quarter of 2019, the company approved and initiated certain restructuring activities designed to optimize costs and improve operational efficiency, primarily related to the Stork business. Restructuring charges initiated during the first quarter of 2019 totaling \$27 million, primarily severance, were recorded as “Restructuring and other exit costs” in the Condensed Consolidated Statement of Earnings.

A reconciliation of the beginning and ending restructuring liability is as follows:

(in thousands)	Severance	Lease Exit Costs	Other	Total
Balance as of January 1, 2019	\$—	\$ —	—\$—	\$—
Restructuring charges incurred during the period	27,060	—	308	27,368
Cash payments / settlements during the period	(1,655)	—	(255)	(1,910)
Currency translation	(230)	—	—	(230)
Balance as of March 31, 2019	\$ 25,175	\$ —	—\$ 53	\$ 25,228

During the second quarter of 2019, the company approved and initiated additional restructuring activities related to Stork, which are expected to be completed in 2019.

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 company's Condensed Consolidated Financial Statements and related notes and the company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as adjusted (the "2018 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. Except as the context otherwise requires, the terms Fluor or the Registrant as used herein are references to Fluor Corporation and its predecessors and references to the company, we, us, or our as used herein shall include Fluor Corporation, its consolidated subsidiaries and joint ventures.

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. Under the Private Securities Litigation Reform Act of 1995, a “safe harbor” may be provided to us for certain of these forward-looking statements. 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 and our client’s vulnerability to downturns, which may result in decreased capital investment or expenditures and reduced demand for our services;
- The company’s failure to receive anticipated new contract awards and the related impact on revenue, earnings, staffing levels and cost;
- Failure to accurately estimate the cost and schedule for our contracts, resulting in cost overruns or liabilities, including those related to project delays and those caused by the performance of our clients, subcontractors, suppliers and joint venture or teaming partners;
- Intense competition in the global engineering, procurement and construction industry, which can place downward pressure on our contract prices and profit margins and may increase our contractual risks;
- 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;
- 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;
- Civil unrest, security issues, labor conditions and other unforeseeable events in the countries in which we do business, resulting in unanticipated losses;
- Changes in global business, economic (including currency risk), political and social conditions;
- 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;
- Failure to maintain safe work sites;
- 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;
- Uncertainties, restrictions and regulations impacting our government contracts;
- Client delays or defaults in making payments;
- Failure of our suppliers or subcontractors to provide supplies or services at the agreed-upon levels or times;
- Failure of our employees, agents or partners to comply with laws, which could result in harm to our reputation and reduced profits or losses;
- Differences between our actual results and the assumptions and estimates used to prepare our financial statements;
-

The potential impact of changes in tax laws and other tax matters including, but not limited to, those from foreign operations and the ongoing audits by tax authorities;

• Possible systems and information technology interruptions;

• The impact of anti-bribery and international trade laws and regulations;

• The availability of credit and restrictions imposed by credit facilities, both for the company and our clients, suppliers, subcontractors or other partners;

• The company's ability to secure appropriate insurance;

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;
- The loss of business from one or more significant clients;
- Possible limitations of bonding or letter of credit capacity;
- The failure to adequately protect intellectual property rights;
- Impairments to goodwill, investments, deferred tax assets or other intangible assets;
- The risks associated with acquisitions, dispositions or other investments, including the failure to successfully integrate acquired businesses; and
- Restrictions on possible transactions imposed by our charter documents and Delaware law.

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

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

Additional information concerning these and other factors can be found in the company's press releases and periodic filings with the Securities and Exchange Commission ("SEC"), including the discussion under the heading "Item 1A. — Risk Factors" in the 2018 10-K. 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 \$4.2 billion for the three months ended March 31, 2019 decreased 13 percent compared to \$4.8 billion for the three months ended March 31, 2018. Revenue declines in the Energy & Chemicals, Government and Diversified Services segments were partially offset by revenue growth in the Mining, Industrial, Infrastructure & Power segment.

The company recognized net losses attributable to Fluor Corporation of \$58 million and \$18 million during the three months ended March 31, 2019 and 2018, respectively. Earnings in 2019 were adversely affected by after-tax charges totaling \$91 million resulting from forecast revisions for certain projects in the Energy & Chemicals and Mining, Industrial, Infrastructure & Power segments and after-tax restructuring charges totaling \$21 million. (See below for a discussion of the company's restructuring initiative which commenced in the first quarter of 2019.)

Earnings in 2018 were adversely affected by after-tax charges of \$96 million resulting from forecast revisions for a project in the Mining, Industrial, Infrastructure & Power segment. Excluding the adverse effects of forecast revisions in both 2019 and 2018 and the restructuring charges in 2019, earnings in 2019 declined when compared to 2018.

Earnings declines in the Energy & Chemicals, Government and Diversified Services segments were partially offset by

an increase in earnings in the Mining, Industrial, Infrastructure & Power segment.

The effective tax rates for the three months ended March 31, 2019 and 2018 were (33.7) percent and (33.2) percent, respectively. The effective rate for the three months ended March 31, 2019 was unfavorably impacted by the U.S. tax on global intangible low-tax income and foreign losses for which no tax benefit could be recognized. The effective rate for the three months ended March 31, 2018 was unfavorably impacted by higher tax rates on foreign earnings and the inability to offset the losses recognized in certain jurisdictions against the income recognized in other jurisdictions. Both periods benefitted from earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company. Due to the low level of operating results for both periods, the items impacting the effective tax rates had a disproportionately large percentage impact.

Table of Contents

The diluted loss per share of \$0.42 for the three months ended March 31, 2019 was adversely affected by charges totaling \$0.65 per diluted share resulting from forecast revisions for certain projects in the Energy & Chemicals and Mining, Industrial, Infrastructure & Power segments, as well as restructuring charges of \$0.15 per diluted share. The diluted loss per share of \$0.13 for the three months ended March 31, 2018 was adversely affected by charges of \$0.69 per diluted share resulting from forecast revisions for the project in the Mining, Industrial, Infrastructure & Power segment.

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 amount of materials and customer-furnished materials, which are accounted for as pass-through costs.

Consolidated new awards were \$3.4 billion for the three months ended March 31, 2019 compared to new awards of \$2.5 billion for the three months ended March 31, 2018. The Mining, Industrial, Infrastructure & Power and Energy & Chemicals segments were the major contributors to the new award activity in the first quarter of 2019. Approximately 35 percent of consolidated new awards for the first quarter of 2019 were for projects located outside of the United States compared to 64 percent for the first quarter of 2018.

Consolidated backlog as of March 31, 2019 was \$39.3 billion compared to \$29.1 billion as of March 31, 2018. The increase in backlog primarily resulted from new awards booked in the latter part of 2018 in the Energy & Chemicals and Mining, Industrial, Infrastructure & Power segments. As of March 31, 2019, approximately 68 percent of consolidated backlog related to projects outside of the United States compared to 60 percent as of March 31, 2018. Although backlog reflects business that is considered to be firm, cancellations, deferrals or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, revisions to project scope and cost, foreign currency exchange fluctuations and project deferrals, as appropriate. Consolidated backlog differs from the company's remaining unsatisfied performance obligations ("RUPO") discussed in Note 19 to the Condensed Consolidated Financial Statements. Backlog includes the amount of revenue the company expects to recognize under ongoing operations and maintenance contracts for the remainder of the current year renewal period plus up to three additional years if renewal is considered to be probable, while RUPO includes only the amount of revenue the company expects to recognize under ongoing operations and maintenance contracts with definite terms and/or substantive termination provisions. During the first quarter of 2019, services provided to the commercial nuclear market, as well as NuScale, were moved from the Mining, Industrial, Infrastructure & Power segment to the Government segment to align with the manner in which the chief executive officer manages the business and allocates resources and to better reflect the interaction of the commercial and government nuclear markets. Segment operating information and assets for 2018 have been recast to reflect these changes.

Restructuring Plan

During the first quarter of 2019, the company approved and initiated certain restructuring activities designed to optimize costs and improve operational efficiency, primarily related to the Stork business. Restructuring charges initiated during the first quarter of 2019 totaling \$27 million, primarily severance, were recorded as "Restructuring and other exit costs" in the Condensed Consolidated Statement of Earnings. During the second quarter of 2019, the company approved and initiated additional restructuring activities related to Stork, which are expected to be completed in 2019. Total restructuring costs of approximately \$50 million, including those recognized during the first quarter, are expected to be incurred during 2019. Additional restructuring activities could be identified and approved as part of the plan.

Table of Contents

Energy & Chemicals

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

	Three Months Ended	
	March 31,	
(in millions)	2019	2018

Revenue	\$ 1,476.6	\$ 1,943.0
---------	------------	------------

Segment profit	19.4	105.7
----------------	------	-------

Revenue for the three months ended March 31, 2019 decreased by 24 percent compared to the three months ended March 31, 2018, primarily due to a significant decline in the volume of project execution activities for several downstream projects and a large upstream project, as well as the completion of a large chemicals project. This revenue decline was partially offset by increased project execution activity for a liquefied natural gas project in Canada. Segment profit for the three months ended March 31, 2019 decreased by 82 percent compared to the corresponding period in 2018. The decrease in segment profit was primarily driven by charges of \$53 million resulting from forecast revisions for estimated cost growth on an offshore project and \$31 million resulting from the resolution of certain close-out matters with a customer, as well as the decline in volume of project execution activities for the projects mentioned above. The overall decline in segment profit during 2019 was partially offset by favorable forecast revisions for two projects, one of which was closed out in the quarter. Segment profit for the three months ended March 31, 2018 benefitted from favorable project close-out adjustments, which were largely offset by foreign currency losses at the company's joint venture in Mexico. Segment profit margin for the three months ended March 31, 2019 was 1.3 percent compared to 5.4 percent for the corresponding period in 2018. The decrease in segment profit margin was primarily attributable to the same factors affecting segment profit.

New awards for the three months ended March 31, 2019 were \$1.0 billion compared to \$721 million for the corresponding period of 2018. New awards in the current quarter included a chemicals project on the U.S. gulf coast. Backlog of \$17.4 billion as of March 31, 2019 increased from \$14.1 billion as of March 31, 2018. The increase in backlog resulted primarily from the award of the liquefied natural gas export facility in Canada which was awarded in the fourth quarter of 2018.

Total assets in the segment were \$1.5 billion as of both March 31, 2019 and December 31, 2018. Total assets as of March 31, 2019 included aged and disputed accounts receivable of \$108 million related to a cost reimbursable, chemicals project in the Middle East. Management continues to pursue collection of these amounts from the customer and does not believe that the customer has a contractual basis for withholding payment. The company does not believe it is probable that losses will be incurred in excess of amounts reserved for this matter.

Mining, Industrial, Infrastructure & Power

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

	Three Months Ended	
	March 31,	
(in millions)	2019	2018

Revenue	\$ 1,381.2	\$ 907.0
---------	------------	----------

Segment profit (loss)	0.4	(120.4)
-----------------------	-----	----------

Revenue for the three months ended March 31, 2019 increased by 52 percent compared to the three months ended March 31, 2018, primarily due to increased project execution activity for recently awarded mining & metals projects and an existing infrastructure project. The increase in revenue was partially offset by reduced levels of project execution activity for certain power and life sciences & advanced manufacturing projects nearing completion. Segment profit during the three months ended March 31, 2019 and 2018 was adversely affected by charges totaling \$26 million and \$125 million, respectively, resulting from forecast revisions for estimated cost growth at certain fixed-price, gas-fired power plant projects. Excluding the adverse effects of these forecast revisions in both the 2019 and 2018 periods, segment profit in the current quarter increased compared to the corresponding period in 2018. The increase in segment profit was primarily driven by increased project execution activity for the mining & metals and

infrastructure projects discussed above. Segment profit margin

29

Table of Contents

improved in the current year period compared to the corresponding period in 2018. The increase in segment profit margin was primarily attributable to the same factors that affected segment profit.

New awards for both the three months ended March 31, 2019 and 2018 were \$1.3 billion. New awards in the current quarter included the Red and Purple Line Modernization project for the Chicago Transit Authority and an advanced manufacturing project in the Netherlands. Backlog increased to \$15.1 billion as of March 31, 2019 from \$10.3 billion as of March 31, 2018, primarily due to new mining & metals and infrastructure awards booked in the latter part of 2018.

Total assets in the Mining, Industrial, Infrastructure & Power segment were \$1.2 billion as of both March 31, 2019 and December 31, 2018.

The company is currently in a dispute with a customer over costs totaling approximately \$110 million that were allegedly incurred by the customer in connection with one of the gas-fired power plant projects discussed above. The customer has withheld payment of certain invoices outstanding as of March 31, 2019 and drew down in January 2019 on a letter of credit issued on behalf of the company. The company believes that certain of the customer's claims are without merit and is vigorously pursuing recovery of the amounts from the customer. Based upon its evaluation as of March 31, 2019, the company does not believe it is probable that a loss will be incurred in excess of amounts reserved for this matter.

Government

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

	Three Months Ended	
	March 31,	
(in millions)	2019	2018

Revenue	\$ 784.7	\$ 1,330.5
---------	----------	------------

Segment profit	16.6	48.2
----------------	------	------

Revenue for the three months ended March 31, 2019 decreased 41 percent compared to the same period in 2018. The revenue decline resulted primarily from the completion of a power restoration project in Puerto Rico, which commenced in the fourth quarter of 2017 and was substantially completed in the first six months of 2018.

Segment profit for the three months ended March 31, 2019 significantly decreased when compared to the same period in 2018, substantially driven by the completion of the power restoration project in Puerto Rico. Segment profit margin for the first quarter of 2019 was 2.1 percent compared to 3.6 percent for the same period in the prior year. The decrease in segment profit margin was primarily driven by the same factor that drove the decrease in segment profit.

The company currently serves as a subcontractor to a commercial client on a U.S. government project where the company's forecast is based on its assessment of the probable resolution of certain change orders currently under discussion with the client, which if not achieved, could adversely affect revenue and segment profit.

The Government segment includes the operations of NuScale, which are primarily research and development activities. NuScale expenses, net of qualified reimbursable expenses, included in the determination of segment profit, were \$16 million for the three months ended March 31, 2019 compared to \$23 million for the three months ended March 31, 2018.

New awards for the three months ended March 31, 2019 were \$331 million compared to \$43 million for the same period in the prior year. Backlog was \$4.2 billion as of March 31, 2019 compared to \$2.4 billion as of March 31, 2018. The increase in backlog primarily resulted from new award activity for several multi-year decommissioning and cleanup projects booked in the latter part of 2018. Total backlog included \$2.5 billion and \$350 million of unfunded government contracts as of March 31, 2019 and 2018, respectively.

Total assets in the Government segment were \$883 million as of March 31, 2019 compared to \$948 million as of December 31, 2018. The decrease in total assets primarily resulted from decreased working capital in support of project execution activities for several projects including the LOGCAP IV program in Afghanistan and the power restoration project in Puerto Rico.

Total assets in the Government segment as of March 31, 2019 included accounts receivable related to two subcontracts with Westinghouse Electric Company LLC ("Westinghouse") to manage the construction workforce at

two nuclear power plant projects in South Carolina ("V.C. Summer") and 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. In the third quarter of 2017, the V.C. Summer

30

Table of Contents

project was canceled by the owner. In the fourth quarter of 2017, the remaining scope of work on the Plant Vogtle project was transferred to a new contractor. In addition to amounts due for post-petition services, total assets as of March 31, 2019 included amounts due of \$66 million and \$2 million for services provided to the V.C. Summer and Plant Vogtle projects, respectively, prior to the date of the bankruptcy petition. The company has filed mechanic's liens in South Carolina against the property of the owner of the V.C. Summer project for amounts due for pre-petition services rendered to Westinghouse. Based on the company's evaluation of available information, the company does not expect the close-out of these projects to have a material impact on the company's results of operations.

Diversified Services

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

	Three Months Ended	
	March 31,	
(in millions)	2019	2018

Revenue	\$ 550.2	\$ 643.3
---------	----------	----------

Segment profit	10.2	18.8
----------------	------	------

Revenue for the three months ended March 31, 2019 decreased by 14 percent compared to the three months ended March 31, 2018, primarily due to the cancellation of a large operations and maintenance project in North America, a reduction in scope of an operations and maintenance project in Australia and lower contributions from the power services business.

Segment profit for the three months ended March 31, 2019 decreased by 46 percent compared to the corresponding period in 2018, primarily due to the completion of certain large projects in the equipment business, as well as the factors above that drove the decline in revenue. Segment profit margin for the three months ended March 31, 2019 was 1.9 percent compared to 2.9 percent for the three months ended March 31, 2018. The decrease in segment profit margin was primarily due to the same factors affecting segment profit.

New awards for the three months ended March 31, 2019 increased to \$810 million compared to \$433 million for the first quarter of 2018, driven by new awards in the power services business. Backlog of \$2.6 billion as of March 31, 2019 increased from \$2.3 billion as of March 31, 2018, primarily due to the new award activity discussed above. The equipment and temporary staffing businesses do not report backlog or new awards.

Total assets in the Diversified Services segment were \$1.9 billion as of March 31, 2019 compared to \$1.8 billion as of December 31, 2018.

Other

Corporate general and administrative expense for the three months ended March 31, 2019 was \$61 million compared to \$57 million for the three months ended March 31, 2018. The increase in corporate general and administrative expense was primarily attributable to higher foreign currency exchange losses in the first quarter of 2019 compared to the prior year period. Restructuring and other exit costs for the three months ended March 31, 2019 are discussed above under “— Restructuring Plan.” Net interest expense was \$6 million for the three months ended March 31, 2019 compared to \$10 million during the corresponding period of 2018. The decrease in net interest expense was primarily attributable to an increase in interest income from time deposits. Income tax expense for the three months ended March 31, 2019 and 2018 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 14 of the Notes to Condensed Consolidated Financial Statements.

Table of Contents

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, including the use of commercial paper. The company has both committed and uncommitted lines of credit available to 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 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 March 31, 2019, 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 both March 31, 2019 and December 31, 2018. Cash and cash equivalents combined with marketable securities were \$1.9 billion as of March 31, 2019 and \$2.0 billion as of December 31, 2018. 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 \$980 million and \$964 million as of March 31, 2019 and December 31, 2018, 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 variable interest entities (joint ventures and partnerships). These amounts (which totaled \$478 million and \$392 million as of March 31, 2019 and December 31, 2018, 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 \$869 million and \$856 million as of March 31, 2019 and December 31, 2018, respectively, and is presented as "Contract liabilities" on 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 March 31, 2019 and December 31, 2018 and, as a result, has appropriately reflected the tax impact on foreign earnings in deferred taxes.

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 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 three months ended March 31, 2019, working capital slightly increased. Specific factors related to the change in working capital include:

- Decreases in accounts receivable in the Government and Diversified Services segments, primarily related to normal billing and collection activities for various projects, including LOGCAP IV.

Increases in contract assets in the Mining, Industrial, Infrastructure & Power and Diversified Services segments, which resulted primarily from normal project execution activities.

A decrease in accounts payable in the Energy & Chemicals segment, which resulted primarily from normal invoicing and payment activities.

Table of Contents

During the three months ended March 31, 2018, working capital increased primarily due to increases in accounts receivable and contract assets partially offset by an increase in accounts payable, all of which were driven primarily by project execution activities in the Government segment for the power restoration project in Puerto Rico. Cash utilized by operating activities was \$17 million and \$136 million for the three months ended March 31, 2019 and 2018, respectively. The decrease in cash utilized from operating activities resulted primarily from a lower level of working capital outflows in 2019 compared to the prior year period.

The company contributed \$9 million and \$7 million into its defined benefit pension plans during the three months ended March 31, 2019 and 2018, respectively. The company currently expects to contribute up to \$15 million during 2019, which is expected to be in excess of the minimum funding required.

Both periods included the operations of NuScale, which are primarily for research and development activities associated with the licensing and commercialization of small modular nuclear reactor technology. A discussion of the cost-sharing agreement between NuScale and the U.S. Department of Energy (“DOE”) is provided in the Notes to Consolidated Financial Statements included in the 2018 10-K. NuScale expenses included in the determination of segment profit were \$16 million and \$23 million for the three months ended March 31, 2019 and 2018, respectively. NuScale expenses for the 2019 and 2018 periods were reported net of qualified reimbursable expenses of \$13 million and \$15 million, respectively.

Investing Activities

Cash provided by investing activities amounted to \$68 million and \$67 million for the three months ended March 31, 2019 and 2018, respectively. The primary investing activities included purchases, sales and maturities of marketable securities; capital expenditures; disposals of property, plant and equipment; and investments in partnerships and joint ventures.

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 may include money market funds, 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 three months ended March 31, 2019 and 2018, proceeds from sales and maturities of marketable securities exceeded purchases of such securities by \$116 million and \$131 million, respectively. The company held current marketable securities of \$99 million and \$215 million as of March 31, 2019 and December 31, 2018, respectively.

Capital expenditures of \$48 million and \$65 million for the three months ended March 31, 2019 and 2018, 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 \$11 million and \$16 million during the three months ended March 31, 2019 and 2018, respectively, primarily related to the disposal of construction equipment associated with the equipment operations in the Diversified Services segment.

Investments in unconsolidated partnerships and joint ventures of \$12 million and \$16 million during the three months ended March 31, 2019 and 2018, respectively, primarily consist of capital contributions to an infrastructure joint venture in the United States.

Financing Activities

Cash utilized by financing activities of \$30 million and \$58 million during the three months ended March 31, 2019 and 2018, respectively, included company dividend payments to stockholders and distributions paid to holders of noncontrolling interests.

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 2018 were paid in the first quarter of 2019. Quarterly cash dividends of \$0.21 per share were declared in the first quarter of 2019 and 2018. The payment and level of future cash dividends is subject to the discretion of the company’s Board of Directors.

In August 2018, the company issued \$600 million of 4.250% Senior Notes (the “2018 Notes”) due September 15, 2028 and received proceeds of \$595 million, net of underwriting discounts. Interest on the 2018 Notes is payable

semi-annually on March 15 and September 15 of each year, beginning on March 15, 2019. Prior to June 15, 2028, the company may redeem the 2018 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 June 15, 2028, the company may redeem the 2018 Notes at 100 percent of the principal amount plus accrued and unpaid interest, if any, to the date of redemption.

Table of Contents

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.

For the 2018 Notes, the 2016 Notes and the 2014 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 2018 Notes, the 2016 Notes and the 2014 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. The company may, from time to time, repurchase the 2018 Notes, the 2016 Notes or the 2014 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.

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 \$10 million and \$23 million during the three months ended March 31, 2019 and 2018, respectively. Distributions in 2019 primarily related to a mining joint venture project in Chile. Distributions in 2018 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 three months ended March 31, 2019 and 2018, most major foreign currencies strengthened against the U.S. dollar resulting in unrealized translation gains of \$44 million and \$27 million, respectively, of which \$21 million and \$9 million, respectively, 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.

Off-Balance Sheet Arrangements

Guarantees and Commitments

As of March 31, 2019, the company had both committed and uncommitted lines of credit available to be used for revolving loans and letters of credit. As of March 31, 2019, letters of credit and borrowings totaling \$1.5 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 debt-to-capitalization ratio that cannot exceed 0.6 to 1.0 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.

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

Table of Contents

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 \$19 billion as of March 31, 2019. 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 March 31, 2019 and December 31, 2018 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 variable interest entity ("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 16 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 quarter of 2019. Accordingly, the disclosures provided in the 2018 10-K remain current.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

On January 1, 2019, the company adopted ASC Topic 842, "Leases." In connection with the adoption, we implemented certain changes to our processes, systems and controls related to leases. These changes included the development of new policies and practices based on the guidance outlined in ASC 842, new lease review requirements and new processes and controls related to the additional disclosure requirements. There were no other 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	
	March 31,	
	2019	2018
Backlog — beginning of period	\$39,957.3	\$30,915.4
New awards	3,400.2	2,536.1
Adjustments and cancellations, net ⁽¹⁾	57.5	390.7
Work performed	(4,081.7)	(4,710.0)
Backlog — end of period	\$39,333.3	\$29,132.2

⁽¹⁾ Adjustments and cancellations, net in 2018 included an adjustment to increase backlog as a result of the adoption of ASC Topic 606, “Revenue from Contracts with Customers,” on January 1, 2018, and other project scope adjustments and cancellations.

Table of Contents

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

For information on matters in dispute, see Note 16 to the Consolidated Financial Statements included in the 2018 10-K, and Note 16 to the Condensed Consolidated Financial Statements under Part I, Item 1 of this report.

Item 1A. Risk Factors

There have been no material changes from our risk factors as disclosed in the 2018 10-K.

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

(c) The following table provides information about purchases by the company during the quarter ended March 31, 2019 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⁾
January 1, 2019 — January 31, 2019	—	\$ —	—	10,513,093
February 1, 2019 — February 28, 2019	—	—	—	10,513,093
March 1, 2019 — March 31, 2019	—	—	—	10,513,093
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 4. Mine Safety Disclosures

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this quarterly report.

Table of Contents

Item 6. Exhibits

EXHIBIT INDEX

Exhibit	Description
3.1	<u>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 (Commission file number 1-16129) filed on May 8, 2012).</u>
3.2	<u>Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K (Commission file number 1-16129) filed on February 9, 2016).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").*</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(b) of the Exchange Act.*</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.*</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.*</u>
95	<u>Mine Safety Disclosures.*</u>
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.

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: May 2, 2019 By: /s/ Bruce A. Stanski

Bruce A. Stanski

Executive Vice President and Chief Financial Officer

Date: May 2, 2019 By: /s/ Robin K. Chopra

Robin K. Chopra

Senior Vice President and Controller

(Chief Accounting Officer)