FLUOR CORP
Form 10-Q
May 03, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

Or

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

For the transition period from to

Commission File Number: 1-16129

FLUOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**33-0927079** (I.R.S. Employer Identification No.)
6700 Las Colinas Boulevard **Irving, Texas** (Address of principal executive offices)	**75039** (Zip Code)

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

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

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

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company o	

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. o

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

As of April 27, 2018, 140,587,114 shares of the registrant s common stock, $0.01 par value, were outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

UNAUDITED

(in thousands, except per share amounts)	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
TOTAL REVENUE	$	4,823,770	$	4,835,905
TOTAL COST OF REVENUE		4,765,975		4,685,904
OTHER (INCOME) AND EXPENSES				
Corporate general and administrative expense		57,271		45,048
Interest expense		17,112		17,563
Interest income		(7,533)		(6,035)
Total cost and expenses		4,832,825		4,742,480
EARNINGS (LOSS) BEFORE TAXES		(9,055)		93,425
INCOME TAX EXPENSE		3,006		16,071
NET EARNINGS (LOSS)		(12,061)		77,354
LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		5,529		16,743
NET EARNINGS (LOSS) ATTRIBUTABLE TO FLUOR CORPORATION	$	(17,590)	$	60,611
BASIC EARNINGS (LOSS) PER SHARE	$	(0.13)	$	0.43
DILUTED EARNINGS (LOSS) PER SHARE	$	(0.13)	$	0.43
SHARES USED TO CALCULATE EARNINGS PER SHARE				
BASIC		140,099		139,443
DILUTED		140,099		140,958
DIVIDENDS DECLARED PER SHARE	$	0.21	$	0.21

See Notes to Condensed Consolidated Financial Statements.

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FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

UNAUDITED

(in thousands)	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
NET EARNINGS (LOSS)	$	(12,061)	$	77,354
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation adjustment		26,358		30,490
Ownership share of equity method investees other comprehensive income		4,981		8,433
Defined benefit pension and postretirement plan adjustments		1,176		393
Unrealized gain (loss) on derivative contracts		(3,602)		5,348
Unrealized gain on available-for-sale securities		709		83
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX		29,622		44,747
COMPREHENSIVE INCOME		17,561		122,101
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS		5,869		17,001
COMPREHENSIVE INCOME ATTRIBUTABLE TO FLUOR CORPORATION	$	11,692	$	105,100

See Notes to Condensed Consolidated Financial Statements.

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FLUOR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

UNAUDITED

(in thousands, except share and per share amounts)		March 31, 2018		December 31, 2017
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents ($583,168 and $516,046 related to variable interest entities (VIEs))	$	1,685,954	$	1,804,075
Marketable securities, current ($89,295 and $91,295 related to VIEs)		142,503		161,134
Accounts and notes receivable, net ($221,966 and $327,652 related to VIEs)		1,727,474		1,602,751
Contract assets ($196,233 and $132,500 related to VIEs)		1,557,966		1,458,533
Other current assets ($18,028 and $9,229 related to VIEs)		580,865		574,764
Total current assets		5,694,762		5,601,257
Marketable securities, noncurrent				113,622
Property, plant and equipment (PP&E) ((net of accumulated depreciation of $1,204,484 and $1,201,929) (net PP&E of $41,180 and $44,004 related to VIEs))		1,097,833		1,093,681
Goodwill		581,298		564,683
Investments		898,724		878,863
Deferred taxes		435,675		316,472
Deferred compensation trusts		345,799		381,826
Other assets ($27,325 and $27,631 related to VIEs)		371,135		377,288
TOTAL ASSETS	$	9,425,226	$	9,327,692
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade accounts payable ($368,636 and $258,592 related to VIEs)	$	1,720,943	$	1,512,740
Short-term borrowings		28,808		27,361
Contract liabilities ($314,675 and $361,701 related to VIEs)		1,193,465		874,036
Accrued salaries, wages and benefits ($34,677 and $32,678 related to VIEs)		724,798		706,520
Other accrued liabilities ($48,259 and $44,211 related to VIEs)		410,292		453,513
Total current liabilities		4,078,306		3,574,170
LONG-TERM DEBT DUE AFTER ONE YEAR		1,607,653		1,591,598
NONCURRENT LIABILITIES		609,960		669,525
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 140,597,739 and 139,918,324 shares in 2018 and 2017, respectively		1,406		1,399
Additional paid-in capital		99,028		88,222
Accumulated other comprehensive loss		(372,960)		(402,242)
Retained earnings		3,268,837		3,654,931
Total shareholders equity		2,996,311		3,342,310

Noncontrolling interests		132,996		150,089
Total equity		3,129,307		3,492,399
TOTAL LIABILITIES AND EQUITY	$	9,425,226	$	9,327,692

See Notes to Condensed Consolidated Financial Statements.

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FLUOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

(in thousands)	Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	$ (12,061)	$ 77,354
Adjustments to reconcile net earnings to cash provided (utilized) by operating activities:		
Depreciation of fixed assets	51,907	50,718
Amortization of intangibles	4,747	5,059
(Earnings) loss from equity method investments, net of distributions	1,854	1,072
Gain on sale of property, plant and equipment	(2,153)	(3,665)
Amortization of stock-based awards	13,917	15,666
Deferred compensation trust	1,025	(14,573)
Deferred compensation obligation	930	14,620
Deferred taxes	(37,920)	52,081
Net retirement plan accrual (contributions)	(5,235)	(7,604)
Changes in operating assets and liabilities	(151,051)	82,779
Other items	(1,962)	(3,272)
Cash provided (utilized) by operating activities	(136,002)	270,235
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(44,868)	(30,521)
Proceeds from the sales and maturities of marketable securities	175,784	71,900
Capital expenditures	(65,082)	(66,884)
Proceeds from disposal of property, plant and equipment	16,494	14,652
Investments in partnerships and joint ventures	(15,574)	(86,026)
Other items	128	611
Cash provided (utilized) by investing activities	66,882	(96,268)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(30,242)	(29,996)
Repayment of borrowings under revolving lines of credit		(53,455)
Distributions paid to noncontrolling interests	(23,226)	(12,251)
Capital contributions by noncontrolling interests	365	3,606
Taxes paid on vested restricted stock	(5,455)	(6,171)
Stock options exercised	4,019	5,787
Other items	(3,440)	14,991
Cash utilized by financing activities	(57,979)	(77,489)
Effect of exchange rate changes on cash	8,978	20,667
Increase (decrease) in cash and cash equivalents	(118,121)	117,145
Cash and cash equivalents at beginning of period	1,804,075	1,850,436
Cash and cash equivalents at end of period	$ 1,685,954	$ 1,967,581

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(1) Principles of Consolidation

The Condensed Consolidated Financial Statements do not include footnotes and certain financial information normally presented annually under accounting principles generally accepted in the United States and, therefore, should be read in conjunction with the company s December 31, 2017 Annual Report on Form 10-K. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three months ended March 31, 2018 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, 2018 and December 31, 2017 and its consolidated results of operations and cash flows for the interim periods presented. All significant intercompany transactions of consolidated subsidiaries are eliminated. During the first quarter of 2018, the operations of the company s mining and metals business, previously included in the Energy & Chemicals segment, have been included in the Mining, Industrial, Infrastructure & Power segment. Therefore, certain amounts disclosed in 2017 have been reclassified to conform to the 2018 presentation. 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 2018, the company adopted Accounting Standards Update (ASU) 2014-09 (ASC Topic 606), Revenue from Contracts with Customers using the modified retrospective method in which the new guidance was applied retrospectively to contracts that were not completed as of January 1, 2018. Results for the reporting period beginning after January 1, 2018 have been presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with previous guidance. See Note 3 for a 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 2018 are discussed below or in the related notes, where appropriate.

In the first quarter of 2018, the company adopted ASU 2014-09 (ASC Topic 606), Revenue from Contracts with Customers and related ASUs. See Note 3 for a further discussion of the adoption and the impact on the company s financial statements.

In the first quarter of 2018, the company adopted ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities. This ASU amends the Financial Accounting Standards Board s (FASB) hedge accounting model to enable entities to better portray their risk management activities in the financial statements. ASU 2017-12 expands an entity s ability to hedge nonfinancial and financial risk components and eliminates the requirement to separately measure and report hedge ineffectiveness. The adoption of ASU 2017-12 did not have a material impact on the company s financial position, results of operations or cash flows.

In the first quarter of 2018, the company adopted ASU 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The adoption of ASU 2017-09 did not have any impact on the company s financial position, results of operations or cash flows.

In the first quarter of 2018, the company adopted ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires employers to present the service cost component of net periodic benefit cost in the same income statement line item as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from the service cost component. As a result of the adoption of ASU 2017-07, the service cost component of net periodic pension expense has been presented in Total cost of revenue and the other components of net periodic pension expense have been presented in Corporate general and administrative expense on the Condensed Consolidated Statement of Earnings for the three months

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ended March 31, 2018. Amounts in the 2017 period have not been reclassified to conform to the new presentation as the impact to the results of operations was not material. The adoption of ASU 2017-07 did not have any impact on the company s financial position or cash flows.

In the first quarter of 2018, the company adopted ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The adoption of ASU 2017-01 did not have any impact on the company s financial position, results of operations or cash flows.

In the first quarter of 2018, the company adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force). ASU 2016-18 requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The adoption of ASU 2016-18 did not have any impact on the company s cash flows.

In the first quarter of 2018, the company adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 amends the guidance in Accounting Standards Codification (ASC) 230, which often requires judgment to determine the appropriate classification of cash flows as operating, investing or financing activities, and has resulted in diversity in practice in how certain cash receipts and cash payments are classified. The adoption of ASU 2016-15 did not have any impact on the company s cash flows.

In the first quarter of 2018, the company adopted ASU 2016-01, Financial Instruments Overall Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and to recognize any changes in fair value in net income unless the investments qualify for a practicability exception. The adoption of ASU 2016-01 did not have any 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 February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which gives entities the option to reclassify the tax effects stranded in accumulated other comprehensive income as a result of the enactment of comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act, to retained earnings. ASU 2018-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact that the adoption of ASU 2018-02 will have on the company s financial position, results of operations and 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 does not expect the adoption of ASU 2016-13 to have a material impact on the company s financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases: Amendments to the FASB Accounting Standards Codification, and issued subsequent amendments to the initial guidance in September 2017 within ASU 2017-13 which continues to amend the existing guidance on accounting for leases. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. 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. ASU 2016-02 also requires the recognition of lease assets and lease liabilities on the balance sheet, and the disclosure of key information about leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. The new guidance will be applied to leases that exist or are entered into on or after January 1, 2019 without adjusting comparative periods in the financial statements. Management is

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currently evaluating the impact of adopting ASU 2016-02 on the company s financial position, results of operations and cash flows.

(3) Revenue Recognition

On January 1, 2018, the company adopted ASC Topic 606, Revenue from Contracts with Customers, including the following ASUs:

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

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

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

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

ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers allows an entity to determine the provision for loss contracts at either the contract level or the performance obligation level as an accounting policy election. The company determines its provision for loss contracts at the contract level.

ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets clarifies that the scope and application of ASC 610-20 on accounting for the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, applies only when the asset (or asset group) does not meet the definition of a business.

ASU 2017-13, Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments provides guidance related to the effective dates of the ASUs noted above.

The company adopted ASC Topic 606 using the modified retrospective method, and accordingly the new guidance was applied retrospectively to contracts that were not completed as of January 1, 2018 (the date of initial application). As a result, the company has recorded a cumulative effect adjustment to decrease retained earnings by $339 million as of January 1, 2018 as well as the following cumulative effect adjustments:

- A decrease to accounts receivable of $50 million;
- A decrease to contract assets of $19 million;
- A decrease to investments of $4 million;
- A decrease to other assets of $14 million;

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- An increase to contract liabilities of $357 million;
- A decrease to other accrued liabilities of $14 million;
- A decrease to noncurrent liabilities of $1 million;
- An increase to deferred taxes assets of $89 million; and
- A decrease to noncontrolling interests of $1 million.

The decrease in retained earnings primarily resulted from a change in the manner in which the company determines the unit of account for its projects (i.e., performance obligations). Under the previous guidance, the company typically segmented revenue and margin recognition between the engineering and construction phases of its contracts. Upon adoption of ASC Topic 606, engineering and construction contracts are generally accounted for as a single unit of account (a single performance obligation), resulting in a more constant recognition of revenue and margin over the term of the contract. In accordance with ASU 2017-13, certain of the company s unconsolidated partnerships and joint ventures will not adopt ASC Topic 606 until January 1, 2019, at which time the company will record a cumulative effect adjustment which is not expected to be significant.

The following table presents how the adoption of ASC Topic 606 affected certain line items in the Condensed Consolidated Statement of Earnings:

	Three Months Ended March 31, 2018		
(in thousands)	**Recognition Under Previous Guidance**	**Impact of the Adoption of ASC Topic 606**	**Recognition Under ASC Topic 606**
Total revenue	$ 4,822,060	$ 1,710	$ 4,823,770
Total cost of revenue	4,765,277	698	4,765,975
Corporate general and administrative expense	57,585	(314)	57,271
Interest expense	17,112		17,112
Interest income	(7,533)		(7,533)
Earnings (loss) before taxes	(10,381)	1,326	(9,055)
Income tax expense	3,006		3,006
Net earnings (loss)	(13,387)	1,326	(12,061)
Net earnings attributable to noncontrolling interests	5,374	155	5,529
Net earnings (loss) attributable to Fluor Corporation	(18,761)	1,171	(17,590)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The following table presents how the adoption of ASC Topic 606 affected certain line items in the Condensed Consolidated Balance Sheet:

	As of March 31, 2018		
(in thousands)	**Recognition Under Previous Guidance**	**Impact of the Adoption of ASC Topic 606**	**Recognition Under ASC Topic 606**
Accounts and notes receivable, net	$ 1,766,502	$ (39,028)	$ 1,727,474
Contract assets *(previously presented as contract work in progress)*	1,591,293	(33,327)	1,557,966
Investments	902,007	(3,283)	898,724
Deferred taxes assets	345,009	90,666	435,675
Other assets	384,802	(13,667)	371,135
Contract liabilities *(previously presented as advance billings on contracts)*	831,991	361,474	1,193,465
Other accrued liabilities	423,059	(12,767)	410,292
Noncurrent liabilities	611,078	(1,118)	609,960
Accumulated other comprehensive loss	(365,107)	(7,853)	(372,960)
Retained earnings	3,606,404	(337,567)	3,268,837
Noncontrolling interests	133,804	(808)	132,996

The following table presents how the adoption of ASC Topic 606 affected certain line items in the Condensed Consolidated Statement of Cash Flows:

	Three Months Ended March 31, 2018		
(in thousands)	**Recognition Under Previous Guidance**	**Impact of the Adoption of ASC Topic 606**	**Recognition Under ASC Topic 606**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ (13,387)	$ 1,326	$ (12,061)
(Earnings) loss from equity method investments, net of distributions	1,156	698	1,854
Deferred taxes	(35,947)	(1,973)	(37,920)
Changes in operating assets and liabilities	(151,000)	(51)	(151,051)
Cash utilized by operating activities	(136,002)		(136,002)

Update to Major Accounting Policies

Upon adoption of ASC Topic 606, the company revised its accounting policy on revenue recognition from the policy provided in the Notes to Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2017. The revised accounting policy on revenue recognition is provided below.

Engineering & Construction *Contracts and Service Contracts*

The company recognizes engineering and construction contract revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Engineering and construction contracts are generally accounted for as a single unit of account (a single performance obligation) and are not segmented between types of services. The company recognizes revenue using the percentage-of-completion method, based primarily on contract cost incurred to date compared to total estimated contract cost. The percentage-of-completion method (an input method) is the most faithful depiction of the company s performance because it directly measures the value of the services transferred to the customer. Cost of revenue includes an allocation of depreciation and amortization. Customer-furnished materials, labor and equipment and, in certain cases, subcontractor materials, labor and equipment, are included in revenue and cost of revenue when management believes that the company is acting as a principal rather than as an agent (i.e., the company integrates the materials, labor and equipment

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into the deliverables promised to the customer). Customer-furnished materials are only included in revenue and cost when the contract includes construction activity and the company has visibility into the amount the customer is paying for the materials or there is a reasonable basis for estimating the amount. The company recognizes revenue, but not profit, on certain uninstalled materials that are not specifically produced, fabricated, or constructed for a project. Revenue on these uninstalled materials is recognized when the cost is incurred (when control is transferred). Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the client. Project mobilization costs are generally charged to project costs as incurred when they are an integrated part of the performance obligation being transferred to the client. Customer payments on engineering and construction contracts are typically due within 30 to 45 days of billing, depending on the contract.

For service contracts (including maintenance contracts) in which the company has the right to consideration from the customer in an amount that corresponds directly with the value to the customer of the company s performance completed to date, revenue is recognized when services are performed and contractually billable. For all other service contracts, the company recognizes revenue over time using the cost-to-cost percentage-of-completion method. Service contracts that include multiple performance obligations are segmented between types of services. For contracts with multiple performance obligations, the company allocates the transaction price to each performance obligation using an estimate of the stand-alone selling price of each distinct service in the contract. Revenue recognized on service contracts that have not been billed to clients is classified as a current asset under contract assets on the Condensed Consolidated Balance Sheet. Amounts billed to clients in excess of revenue recognized on service contracts to date are classified as a current liability under contract liabilities. Customer payments on service contracts are typically due within 30 to 90 days of billing, depending on the contract.

Contract assets represent revenue recognized in excess of amounts billed and include unbilled receivables (typically for cost reimbursable contracts) of $1.3 billion and contract work in progress (typically for fixed-price contracts) of $306 million as of March 31, 2018. 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 $410 million and $337 million as of March 31, 2018 and December 31, 2017, respectively, have been deducted from contract assets. Contract liabilities represent amounts billed to clients in excess of revenue recognized to date. The company recognized revenue of $510 million during the three months ended March 31, 2018 that was included in contract liabilities as of January 1, 2018. The company anticipates that substantially all incurred cost associated with contract assets as of March 31, 2018 will be billed and collected within one year.

Variable Consideration

The nature of the company s contracts gives rise to several types of variable consideration, including claims and unpriced change orders; awards and incentive fees; and liquidated damages and penalties. The company recognizes revenue for variable consideration 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 variable consideration 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 (including change orders in dispute and unapproved change orders in regard to both scope and price) 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. If the requirements for recognizing revenue for claims or unapproved change orders are met, revenue is recorded only when the costs associated with the claims or unapproved change orders have been incurred. Back charges to suppliers or subcontractors are recognized as a reduction of cost when it is determined that recovery of such cost is probable and the amounts can be reliably estimated. Disputed back charges are recognized when the same requirements described above for claims accounting have been satisfied.

The company generally provides limited warranties for work performed under its engineering and construction contracts. The warranty periods typically extend for a limited duration following substantial completion of the company s work on a project. Historically, warranty claims have not resulted in material costs incurred.

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Practical Expedients

If the company has a right to consideration from a customer in an amount that corresponds directly with the value of the company s performance completed to date (a service contract in which the company bills a fixed amount for each hour of service provided), the company recognizes revenue in the amount to which it has a right to invoice for services performed.

The company does not adjust the contract price for the effects of a significant financing component if the company expects, at contract inception, that the period between when the company transfers a service to a customer and when the customer pays for that service will be one year or less.

The company has made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by governmental authorities that are collected by the company from its customers (use taxes, value added taxes, some excise taxes).

Remaining Unsatisfied Performance Obligations

The company s remaining unsatisfied performance obligations (RUPO) as of March 31, 2018 represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. The company had $26.5 billion in RUPO as of March 31, 2018.

The company expects to satisfy its RUPO as of March 31, 2018 over the following periods (in millions):

Within 1 year	$	13,297
1 to 2 years		9,377
Thereafter		3,800
Total remaining unsatisfied performance obligations	$	26,474

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.

Disaggregation of Revenue

Revenue disaggregated by reportable segment for the three months ended March 31, 2018 and 2017 is presented in Note 17.

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The following table presents revenue disaggregated by the geographic area where the work was performed for the three months ended March 31, 2018 and 2017:

Revenue by Geographic Area (in millions)	Three Months Ended March 31, 2018		2017(1)	
United States	$	2,319.0	$	2,530.9
Canada		75.7		496.9
Asia Pacific (includes Australia)		231.7		197.2
Europe		1,185.8		1,032.8
Central and South America		541.0		163.0
Middle East and Africa		470.6		415.1
Total revenue by geographic area	$	4,823.8	$	4,835.9

(1) Prior period amounts have not been adjusted for the adoption of ASC Topic 606 under the modified retrospective method.

(4) Other Comprehensive Income (Loss)

The tax effects of the components of other comprehensive income (loss) (OCI) for the three months ended March 31, 2018 and 2017 are as follows:

(in thousands)		Three Months Ended March 31, 2018 Before-Tax Amount		Tax Benefit (Expense)		Net-of-Tax Amount		Three Months Ended March 31, 2017 Before-Tax Amount		Tax Benefit (Expense)		Net-of-Tax Amount
Other comprehensive income (loss):												
Foreign currency translation adjustment	$	26,918	$	(560)	$	26,358	$	48,658	$	(18,168)	$	30,490
Ownership share of equity method investees other comprehensive income		6,259		(1,278)		4,981		13,387		(4,954)		8,433

Defined benefit pension and postretirement plan adjustments	1,517	(341)	1,176	628	(235)	393
Unrealized gain (loss) on derivative contracts	(4,530)	928	(3,602)	8,436	(3,088)	5,348
Unrealized gain on available-for-sale securities	1,134	(425)	709	132	(49)	83
Total other comprehensive income	31,298	(1,676)	29,622	71,241	(26,494)	44,747
Less: Other comprehensive income attributable to noncontrolling interests	340		340	258		258
Other comprehensive income attributable to Fluor Corporation	$ 30,958	$ (1,676)	$ 29,282	$ 70,983	$ (26,494)	$ 44,489

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The changes in accumulated other comprehensive income (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 (loss) before reclassifications	340					340
Amounts reclassified from AOCI						
Net other comprehensive income (loss)	340					340
Balance as of March 31, 2018	$ (1,122)	$	$	$	$	$ (1,122)

The changes in AOCI balances by component (after-tax) for the three months ended March 31, 2017 are as follows:

(in thousands)	Foreign Currency Translation	Ownership Share of Equity Method Investees Other Comprehensive Income (Loss)	Defined Benefit Pension and Postretirement Plans	Unrealized Gain (Loss) on Derivative Contracts	Unrealized Gain (Loss) on Available-for-Sale Securities	Accumulated Other Comprehensive Income (Loss), Net
Attributable to Fluor Corporation:						
Balance as of December 31, 2016	$ (286,449)	$ (31,913)	$ (167,667)	$ (10,375)	$ (265)	$ (496,669)
Other comprehensive income before reclassifications	30,280	8,433		4,744	76	43,533
Amounts reclassified from AOCI			393	556	7	956
Net other comprehensive income	30,280	8,433	393	5,300	83	44,489
Balance as of March 31, 2017	$ (256,169)	$ (23,480)	$ (167,274)	$ (5,075)	$ (182)	$ (452,180)
Attributable to Noncontrolling Interests:						
Balance as of December 31, 2016	$ (614)	$	$	$ (52)	$	$ (666)
Other comprehensive income before reclassifications	210			15		225
Amounts reclassified from AOCI				33		33
Net other comprehensive income	210			48		258
Balance as of March 31, 2017	$ (404)	$	$	$ (4)	$	$ (408)

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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 Consolidated Statement of Earnings**	**Three Months Ended March 31, 2018**		**2017**	
Component of AOCI:					
Ownership share of equity method investees other comprehensive loss	Total cost of revenue	$	(696)	$	
Income tax benefit	Income tax expense		191		
Net of tax		$	(505)	$	
Defined benefit pension plan adjustments	Various accounts(1)	$	(1,516)	$	(628)
Income tax benefit	Income tax expense		340		235
Net of tax		$	(1,176)	$	(393)
Unrealized gain (loss) on derivative contracts:					
Commodity and foreign currency contracts	Total cost of revenue	$	214	$	(513)
Interest rate contracts	Interest expense		(420)		(419)
Income tax benefit (expense)	Income tax expense		47		343
Net of tax			(159)		(589)
Less: Noncontrolling interests	Net earnings attributable to noncontrolling interests				(33)
Net of tax and noncontrolling interests		$	(159)	$	(556)
Unrealized loss on available-for-sale securities	Corporate general and administrative expense	$	(1,134)	$	(12)
Income tax benefit	Income tax expense		425		5
Net of tax		$	(709)	$	(7)

(1) Defined benefit pension plan adjustments were reclassified to Corporate general and administrative expense in 2018 and to Total cost of revenue and Corporate general and administrative expense in 2017.

(5) Income Taxes

The Tax Cuts and Jobs Act (the Tax Act) was enacted on December 22, 2017. The Tax Act reduced the U.S. corporate federal income tax rate down to 21% from 35%, requires companies to pay a one-time transition tax on earnings from certain foreign subsidiaries and creates new taxes on certain foreign sourced earnings. The company applied the guidance in SAB 118 when accounting for the enactment date effects of the Tax Act, which allowed the company to make reasonable estimates at December 31, 2017. Given the complexity of the Tax Act, the company is still evaluating the tax impact and obtaining the information required to complete its accounting. Accordingly, all amounts recognized associated with the Tax Act during the first quarter of 2018 are provisional. Changes to the provisional estimates of the Tax Act will be recorded as a discrete item in the interim period the amounts are considered complete.

The Tax Act subjects a U.S. shareholder to tax on Global Intangible Low Taxes Income (GILTI) earned by foreign subsidiaries. The company has not yet determined its accounting policy with respect to GILTI and has therefore included the estimate of current quarter GILTI entirely as a period cost.

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The effective tax rates for the three months ended March 31, 2018 and 2017 were (33.2) percent and 17.2 percent, respectively. The effective rate for the three months ended March 31, 2018, which reflected the lower U.S. corporate income tax rate enacted by the Tax Act, 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. The effective rate for the three months ended March 31, 2017 benefitted from a worthless stock deduction on an insolvent foreign subsidiary. Both periods benefitted from earnings attributable to noncontrolling interests for which income taxes are not typically the responsibility of the company.

The company conducts business globally and, as a result, the company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Canada, the Netherlands, South Africa, the United Kingdom and the United States. Although the company believes its reserves for its tax positions are reasonable, the final outcome of tax audits could be 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.

(6) Cash Paid for Interest and Taxes

Cash paid for interest was $24 million and $23 million for the three months ended March 31, 2018 and 2017, respectively. Income tax payments, net of refunds, were $36 million and $34 million during the three-month periods ended March 31, 2018 and 2017, 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, 2018 and 2017 are presented below:

	Three Months Ended March 31,	
(in thousands, except per share amounts)	**2018**	**2017**

Net earnings (loss) attributable to Fluor Corporation	$	(17,590)	$	60,611
Basic EPS attributable to Fluor Corporation:				
Weighted average common shares outstanding		140,099		139,443
Basic earnings (loss) per share	$	(0.13)	$	0.43
Diluted EPS attributable to Fluor Corporation:				
Weighted average common shares outstanding		140,099		139,443
Diluted effect:				
Employee stock options, restricted stock units and shares and Value Driver Incentive units (1)				1,515
Weighted average diluted shares outstanding		140,099		140,958
Diluted earnings (loss) per share	$	(0.13)	$	0.43
Anti-dilutive securities not included above		4,159		3,844

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

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(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.

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, 2018 and December 31, 2017:

	March 31, 2018				December 31, 2017			
		Fair Value Hierarchy				Fair Value Hierarchy		
(in thousands)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Cash and cash equivalents(1)	$	$	$	$	$ 1,301	$ 701	$ 600	$
Marketable securities, current(2)					57,783		57,783	
Deferred compensation trusts(3)	24,939	24,939			23,256	23,256		
Marketable securities, noncurrent(4)					113,622		113,622	
Derivative assets(5)								
Foreign currency contracts	23,494		23,494		29,766		29,766	
Liabilities:								
Derivative liabilities(5)								
Foreign currency contracts	$ 28,375	$	$ 28,375	$	$ 29,127	$	$ 29,127	$

(1) Consists of registered money market funds and investment in U.S. agency securities with maturities of three months or less at the date of purchase. The fair value of the money market funds represents the net asset value of the shares of such funds as of the close of business at the end of the period. The fair value of the investments in U.S. agency securities is based on pricing models, which are determined from a compilation of primarily observable market information, broker quotes in non-active markets or similar assets.

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

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

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

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

The company s financial instruments presented in the table above included available-for-sale securities as of December 31, 2017. The available-for-sale securities were made up of the following security types as of December 31, 2017: money market funds of $1 million, U.S. agency securities of $3 million, U.S. Treasury securities of $69 million, corporate debt securities of $97 million and commercial paper of $3 million. The amortized cost of these available-for-sale securities was not materially different from the fair value. The company determined that there was no other-than-temporary impairment of available-for-sale securities with unrealized losses as of December 31, 2017. During the three months ended March 31, 2018 and 2017, proceeds from sales and maturities of available-for-sale securities were $175 million and $25 million, respectively.

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:

		March 31, 2018		December 31, 2017	
(in thousands)	**Fair Value Hierarchy**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Assets:					
Cash(1)	Level 1	$ 1,137,269	$ 1,137,269	$ 1,104,316	$ 1,104,316
Cash equivalents(2)	Level 2	548,685	548,685	698,458	698,458
Marketable securities, current(3)	Level 2	142,503	142,503	103,351	103,351
Notes receivable, including noncurrent portion(4)	Level 3	31,813	31,813	26,006	26,006
Liabilities:					