

PERINI CORP

Form 10-Q

November 03, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2006

OR

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

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

Commission File Number 1-6314

***Perini Corporation***

(Exact name of registrant as specified in its charter)

MASSACHUSETTS

(State or other jurisdiction of

04-1717070

(I.R.S. Employer

incorporation or organization)

Identification No.)

73 MT. WAYTE AVENUE, FRAMINGHAM, MASSACHUSETTS 01701-9160

(Address of principal executive offices)

(Zip code)

(508) 628-2000

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year,  
if changed since last report)

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 ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \_\_\_\_ Accelerated filer ☒ Non-Accelerated filer \_\_\_\_

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

The number of shares of Common Stock, \$1.00 par value per share, of registrant outstanding at November 1, 2006 was 26,456,195.

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## PERINI CORPORATION AND SUBSIDIARIES

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**Part I. Financial Information****Item 1. Financial Statements (Unaudited)****PERINI CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)****SEPTEMBER 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005****(In Thousands)**

| <b><u>ASSETS</u></b>                                                                           | <b>SEPT. 30,<br/>2006</b> | <b>DEC. 31,<br/>2005</b> |
|------------------------------------------------------------------------------------------------|---------------------------|--------------------------|
| Cash and Cash Equivalents (Note 3)                                                             | \$ 123,817                | \$ 139,848               |
| Accounts Receivable, including retainage                                                       | 681,846                   | 536,372                  |
| Unbilled Work                                                                                  | 96,610                    | 97,079                   |
| Deferred Tax Asset                                                                             | -                         | 12,888                   |
| Other Current Assets                                                                           | 16,397                    | 19,703                   |
| Total Current Assets                                                                           | \$ 918,670                | \$ 805,890               |
| Property and Equipment, less Accumulated Depreciation of \$30,532 in 2006 and \$24,497 in 2005 | \$ 84,627                 | \$ 72,813                |
| Goodwill                                                                                       | \$ 26,268                 | \$ 26,706                |
| Other Assets                                                                                   | \$ 9,398                  | \$ 9,847                 |
|                                                                                                | \$ 1,038,963              | \$ 915,256               |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                                             |                           |                          |
| Current Maturities of Long-term Debt                                                           | \$ 16,042                 | \$ 16,281                |
| Accounts Payable, including retainage                                                          | 552,217                   | 467,079                  |
| Deferred Contract Revenue                                                                      | 120,448                   | 83,173                   |
| Deferred Tax Liability                                                                         | 4,965                     | -                        |
| Accrued Expenses                                                                               | 53,435                    | 86,022                   |
| Total Current Liabilities                                                                      | \$ 747,107                | \$ 652,555               |
| Long-term Debt, less current maturities included above                                         | \$ 36,727                 | \$ 39,969                |
| Other Long-term Liabilities                                                                    | \$ 41,110                 | \$ 39,557                |
| Contingencies and Commitments (Note 5)                                                         |                           |                          |
| Stockholders' Equity:                                                                          |                           |                          |
| Preferred Stock (Note 8)                                                                       | \$ -                      | \$ 19                    |
| Series A Junior Participating Preferred Stock                                                  | -                         | -                        |
| Stock Purchase Warrants                                                                        | 461                       | 461                      |
| Common Stock                                                                                   | 26,456                    | 26,038                   |
| Additional Paid-in Capital                                                                     | 132,769                   | 116,223                  |
| Retained Earnings                                                                              | 81,784                    | 67,885                   |
|                                                                                                | \$ 241,470                | \$ 210,626               |
| Accumulated Other Comprehensive Loss                                                           | (27,451)                  | (27,451)                 |
| Total Stockholders' Equity                                                                     | \$ 214,019                | \$ 183,175               |
|                                                                                                | \$ 1,038,963              | \$ 915,256               |

The accompanying notes are an integral part of these consolidated condensed financial statements.

## PERINI CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(In Thousands, Except Share Data)

|                                                                                              | THREE MONTHS<br>ENDED SEPT. 30, |                  | NINE MONTHS<br>ENDED SEPT. 30, |                  |
|----------------------------------------------------------------------------------------------|---------------------------------|------------------|--------------------------------|------------------|
|                                                                                              | 2006                            | 2005             | 2006                           | 2005             |
| Revenues (Note 9)                                                                            | \$ 773,282                      | \$ 380,314       | \$ 2,098,507                   | \$ 1,130,251     |
| Cost of Operations                                                                           | 730,151                         | 355,527          | 1,986,038                      | 1,058,296        |
| Gross Profit                                                                                 | \$ 43,131                       | \$ 24,787        | \$ 112,469                     | \$ 71,955        |
| General and Administrative Expenses (Note 6)                                                 | 26,181                          | 14,710           | 72,595                         | 40,982           |
| <b>INCOME FROM CONSTRUCTION OPERATIONS (Note 9)</b>                                          | <b>\$ 16,950</b>                | <b>\$ 10,077</b> | <b>\$ 39,874</b>               | <b>\$ 30,973</b> |
| Other Income (Expense), Net                                                                  | 638                             | 114              | 1,311                          | (382)            |
| Interest Expense                                                                             | (979)                           | (418)            | (2,846)                        | (1,091)          |
| Income before Income Taxes                                                                   | \$ 16,609                       | \$ 9,773         | \$ 38,339                      | \$ 29,500        |
| Provision for Income Taxes                                                                   | (7,026)                         | (3,821)          | (16,105)                       | (11,538)         |
| <b>NET INCOME</b>                                                                            | <b>\$ 9,583</b>                 | <b>\$ 5,952</b>  | <b>\$ 22,234</b>               | <b>\$ 17,962</b> |
| Less:                                                                                        |                                 |                  |                                |                  |
| Accrued dividends on \$21.25 Preferred Stock (Note 8)                                        | -                               | (297)            | (166)                          | (891)            |
| Excess of fair value over carrying value upon redemption of \$21.25 Preferred Stock (Note 8) | -                               | -                | (253)                          | -                |
| <b>NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS</b>                                          | <b>\$ 9,583</b>                 | <b>\$ 5,655</b>  | <b>\$ 21,815</b>               | <b>\$ 17,071</b> |
| <b>BASIC EARNINGS PER COMMON SHARE (Note 7)</b>                                              | <b>\$ 0.36</b>                  | <b>\$ 0.22</b>   | <b>\$ 0.83</b>                 | <b>\$ 0.67</b>   |
| <b>DILUTED EARNINGS PER COMMON SHARE (Note 7)</b>                                            | <b>\$ 0.36</b>                  | <b>\$ 0.22</b>   | <b>\$ 0.82</b>                 | <b>\$ 0.66</b>   |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (Note 7):</b>                                  |                                 |                  |                                |                  |
| BASIC                                                                                        | 26,442,804                      | 25,541,087       | 26,240,284                     | 25,391,997       |
| Effect of Dilutive Stock Options, Warrants and Restricted Stock Units Outstanding            | 337,925                         | 495,239          | 461,397                        | 623,442          |
| DILUTED                                                                                      | 26,780,729                      | 26,036,326       | 26,701,681                     | 26,015,439       |

The accompanying notes are an integral part of these consolidated condensed financial statements.

## PERINI CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(In Thousands)

|                                                                   | Preferred<br>Stock | Stock<br>Purchase<br>Warrants | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total      |
|-------------------------------------------------------------------|--------------------|-------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------|------------|
| Balance - December 31, 2005                                       | \$ 19              | \$ 461                        | \$ 26,038       | \$ 116,223                       | \$ 67,885            | \$ (27,451)                                   | \$ 183,175 |
| Net income                                                        | -                  | -                             | -               | -                                | 22,234               | -                                             | 22,234     |
| Preferred Stock dividends accrued and paid<br>(\$8.98 per share*) | -                  | -                             | -               | -                                | (166)                | -                                             | (166)      |
| Common Stock options exercised                                    | -                  | -                             | 130             | 497                              | -                    | -                                             | 627        |
| Restricted Stock compensation expense                             | -                  | -                             | -               | 13,162                           | -                    | -                                             | 13,162     |
| Issuance of Common Stock, net                                     | -                  | -                             | 288             | (656)                            | -                    | -                                             | (368)      |
| Redemption of Preferred Stock                                     | (19)               | -                             | -               | 3,543                            | (8,169)              | -                                             | (4,645)    |
| Balance - September 30, 2006                                      | \$ -               | \$ 461                        | \$ 26,456       | \$ 132,769                       | \$ 81,784            | \$ (27,451)                                   | \$ 214,019 |

\*Equivalent to \$0.898 per Depositary Share

The accompanying notes are an integral part of these consolidated condensed financial statements.

## PERINI CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(In Thousands)

|                                                                                                                                                             | NINE MONTHS<br>ENDED SEPT. 30, |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|
|                                                                                                                                                             | 2006                           | 2005        |
| Cash Flows from Operating Activities:                                                                                                                       |                                |             |
| Net income                                                                                                                                                  | \$ 22,234                      | \$ 17,962   |
| Adjustments to reconcile net income to net cash provided from (used by) operating activities:                                                               |                                |             |
| Depreciation and amortization                                                                                                                               | 7,405                          | 4,182       |
| Restricted stock compensation expense                                                                                                                       | 13,162                         | 2,891       |
| Income tax benefit from stock options exercised                                                                                                             | -                              | 1,216       |
| Deferred income taxes                                                                                                                                       | 15,938                         | 7,691       |
| Gain on sale of equipment                                                                                                                                   | (625)                          | (100)       |
| Loss on land held for sale, net                                                                                                                             | 218                            | 288         |
| Loss on sale of available-for-sale securities                                                                                                               | -                              | 41          |
| Increase in other long-term liabilities                                                                                                                     | 6,735                          | 227         |
| Cash used by changes in components of working capital other than cash, current maturities of long-term debt, deferred tax asset and land held for sale, net | (52,811)                       | (44,415)    |
| NET CASH PROVIDED FROM (USED BY) OPERATING ACTIVITIES                                                                                                       | \$ 12,256                      | \$ (10,017) |
| Cash Flows from Investing Activities:                                                                                                                       |                                |             |
| Acquisition of Cherry Hill Construction, Inc., net of cash balance acquired                                                                                 | \$ -                           | \$ (19,970) |
| Acquisition of property and equipment                                                                                                                       | (19,219)                       | (8,230)     |
| Proceeds from sale of property and equipment                                                                                                                | 2,410                          | 1,104       |
| Investment in land held for sale, net                                                                                                                       | (126)                          | -           |
| Proceeds from sale of available-for-sale securities                                                                                                         | 689                            | 4,758       |
| Proceeds from other investing activities                                                                                                                    | 24                             | 663         |
| NET CASH USED BY INVESTING ACTIVITIES                                                                                                                       | \$ (16,222)                    | \$ (21,675) |
| Cash Flows from Financing Activities:                                                                                                                       |                                |             |
| Proceeds from long-term debt                                                                                                                                | \$ 6,663                       | \$ 4,520    |
| Reduction of long-term debt                                                                                                                                 | (10,144)                       | (9,599)     |
| Redemption of \$21.25 Preferred Stock, including payment of accrued dividends                                                                               | (8,843)                        | -           |
| Proceeds from exercise of common stock options and stock purchase warrants                                                                                  | 627                            | 926         |
| Issuance of common stock                                                                                                                                    | 330                            | 219         |
| Cash settlement of restricted stock units                                                                                                                   | (698)                          | (421)       |
| Expenditure for stock registration                                                                                                                          | -                              | (159)       |
| NET CASH USED BY FINANCING ACTIVITIES                                                                                                                       | \$ (12,065)                    | \$ (4,514)  |
| Net Decrease in Cash                                                                                                                                        | \$ (16,031)                    | \$ (36,206) |
| Cash at Beginning of Year                                                                                                                                   | 139,848                        | 136,305     |
| Cash at End of Period                                                                                                                                       | \$ 123,817                     | \$ 100,099  |
| Supplemental Disclosure of Cash Paid During the Period For:                                                                                                 |                                |             |
| Interest                                                                                                                                                    | \$ 2,995                       | \$ 1,092    |
| Income taxes                                                                                                                                                | \$ 824                         | \$ 2,987    |
| Supplemental Disclosure of Non-cash Transactions:                                                                                                           |                                |             |
| Common stock issued for services                                                                                                                            | \$ 7,396                       | \$ 2,562    |
| Preferred stock dividends accrued but not paid                                                                                                              | \$ -                           | \$ 891      |

The accompanying notes are an integral part of these consolidated condensed financial statements.



**PERINI CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(1) Basis of Presentation**

The unaudited consolidated condensed financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2005. In the opinion of management, the accompanying unaudited consolidated condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2006 and December 31, 2005, results of operations for the three months and nine months ended September 30, 2006 and 2005, and cash flows for the nine months ended September 30, 2006 and 2005. The results of operations for the nine months ended September 30, 2006 may not be indicative of the results that may be expected for the year ending December 31, 2006 because, among other reasons, such results can vary depending on the timing of progress achieved and changes in estimated profitability of projects being reported.

**(2) Significant Accounting Policies**

The significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note (1) to such financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The Company has made no significant change in these policies during 2006 except as described in Note 6 - Stock-Based Compensation regarding the required adoption of SFAS No. 123(R), Share-Based Payment.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires an employer to recognize the over funded or under funded status of defined benefit and other postretirement plans as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through an adjustment to accumulated other comprehensive income (loss) in stockholders' equity. The Company is required to adopt the provisions of SFAS No. 158 as of December 31, 2006 and is in the process of determining the impact the adoption of SFAS No. 158 will have on its consolidated financial statements and related disclosures.

In addition, SFAS No. 158 requires an employer to measure the funded status of a plan as of the date of its fiscal year-end, with limited exceptions. The Company currently uses the date of its fiscal year-end as its measurement date and, as a result, that new requirement will not affect the Company.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value under accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning January 1, 2008, and the provisions will be applied prospectively as of that date. The Company is in the process of determining the impact, if any, the adoption of SFAS No. 157 will have on its consolidated financial statements and related disclosures when it becomes effective in 2008.

In June 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is required to adopt FIN 48 as of January 1, 2007 and is in the process of determining the impact, if any, the adoption of FIN 48 will have on its consolidated financial statements and related disclosures.

## PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(3) **Cash and Cash Equivalents**

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

Cash and cash equivalents as reported in the accompanying Consolidated Condensed Balance Sheets consist of amounts held by the Company that are available for general corporate purposes and the Company's proportionate share of amounts held by construction joint ventures that are available only for joint venture-related uses. Joint Venture cash and cash equivalents are not restricted to specific uses within those entities; however, the terms of the joint venture agreements limit the Company's ability to distribute those funds and use them for corporate purposes. Cash held by construction joint ventures is distributed from time to time to the Company and to the other joint venture participants in accordance with their percentage interest after the joint venture partners determine that a cash distribution is prudent. Cash distributions received by the Company from its construction joint ventures are then available for general corporate purposes. At September 30, 2006 and December 31, 2005, cash and cash equivalents consisted of the following (in thousands):

|                                                                                                                                        | Sept. 30,<br>2006    | Dec. 31,<br>2005     |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Corporate cash and cash equivalents (available for general corporate purposes)                                                         | \$ 82,965            | \$ 99,747            |
| Company's share of joint venture cash and cash equivalents (available only for joint venture purposes, including future distributions) | 40,852<br>\$ 123,817 | 40,101<br>\$ 139,848 |

(4) **Acquisition of Rudolph and Sletten, Inc. -**

In October 2005, the Company completed the acquisition of 100% of the outstanding capital stock of Rudolph and Sletten, Inc. (Rudolph & Sletten), a privately held construction and construction management company based in Redwood City, California, and covering the major California construction markets of Los Angeles, Silicon Valley, San Francisco and Sacramento. The transaction was accounted for using the purchase method of accounting as required by SFAS No. 141, Business Combinations including the allocation of the purchase price to the tangible and intangible assets of Rudolph & Sletten which has been finalized.

Since the acquisition was effective as of October 3, 2005, the Company's actual 2006 year to date results include Rudolph & Sletten for the total period. Therefore, the following pro forma financial information is only presented for the comparative three month and nine month periods ended September 30, 2005 to show the pro forma results of operations as if Rudolph & Sletten had been acquired effective January 1, 2005 (in thousands, except per share data):

## PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(4) Acquisition of Rudolph and Sletten, Inc. (continued)

|                                   | Three Months Ended<br>September 30, 2005 |            | Nine Months Ended<br>September 30, 2005 |              |
|-----------------------------------|------------------------------------------|------------|-----------------------------------------|--------------|
|                                   | Actual                                   | Pro forma  | Actual                                  | Pro forma    |
| Revenues                          | \$ 380,314                               | \$ 534,929 | \$ 1,130,251                            | \$ 1,594,098 |
| Gross profit                      | \$ 24,787                                | \$ 33,674  | \$ 71,955                               | \$ 98,620    |
| Net income                        | \$ 5,952                                 | \$ 6,793   | \$ 17,962                               | \$ 20,487    |
| Basic earnings per common share   | \$ 0.22                                  | \$ 0.25    | \$ 0.67                                 | \$ 0.77      |
| Diluted earnings per common share | \$ 0.22                                  | \$ 0.25    | \$ 0.66                                 | \$ 0.75      |

The pro forma results have been prepared for comparative purposes only and include certain adjustments such as (i) increased interest expense on acquisition debt; (ii) increased depreciation expense related to the adjustment of the fixed asset carrying values due to the application of purchase accounting (as described above); (iii) additional amortization expenses related to intangible assets arising from the acquisition; and (iv) to reflect a statutory income tax rate on the pretax income of Rudolph & Sletten as well as on the applicable pro forma income adjustments made. In addition, the pro forma results include an adjustment to reflect the elimination of compensation and payroll burden expense of certain Rudolph & Sletten executives who resigned in accordance with the terms of the stock purchase agreement. The pro forma results are not necessarily indicative either of the results of operations that actually would have resulted had the acquisition been in effect on January 1, 2005 or of future results.

(5) Contingencies and Commitments(a) Tutor-Saliba-Perini Joint Venture vs. Los Angeles MTA Matter

During 1995, a joint venture, Tutor-Saliba-Perini, or the Joint Venture, in which Perini Corporation, or Perini, is the 40% minority partner and Tutor-Saliba Corporation, or Tutor-Saliba, of Sylmar, California is the 60% managing partner, filed a complaint in the Superior Court of the State of California for the County of Los Angeles against the Los Angeles County Metropolitan Transportation Authority, or LAMTA, seeking to recover costs for extra work required by LAMTA in connection with the construction of certain tunnel and station projects. In February 1999, LAMTA countered with civil claims under the California False Claims Act against the Joint Venture, Tutor-Saliba and Perini jointly and severally (together, TSP). Ronald N. Tutor, the Chairman and Chief Executive Officer of Perini since March 2000, is also the chief executive officer and the sole stockholder of Tutor-Saliba.

Claims concerning the construction of LAMTA projects were tried in 2001. During the trial, based on the Joint Venture's alleged failure to comply with the Court's discovery orders, the Judge issued terminating sanctions that resulted in a substantial judgment against TSP.

TSP appealed and, on January 25, 2005, the State of California Court of Appeal reversed the trial court's entire judgment and found that the trial court judge had abused his discretion and had violated TSP's due process rights, and had imposed impermissibly overbroad terminating sanctions. The Court of Appeal also directed the trial court to dismiss LAMTA's claims that TSP had violated the Unfair Competition Law

( UCL ) because LAMTA lacked standing to bring such a

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PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(5) **Contingencies and Commitments** (continued)

(a) **Tutor-Saliba-Perini Joint Venture vs. Los Angeles MTA Matter (continued)**

claim, and remanded the Joint Venture's claims against LAMTA for extra work required by LAMTA and LAMTA's counterclaim under the California False Claims Act against TSP to the trial court for further proceedings, including a new trial. LAMTA petitioned the Court of Appeal for rehearing and the California Supreme Court for review. Both petitions were denied and the case was remanded and has been reassigned for a new trial.

In 2006, LAMTA sought to amend its cross-complaint to expand on existing causes of action, to add statutory causes of action, and to add the District Attorney as a party in order to have a plaintiff with standing to assert a UCL claim. The Court ruled that the UCL claim may be added; however, all other proposed MTA amendments and additions were denied. The Court ordered bifurcated proceedings in an attempt to address the case on a piecemeal basis in the hope that the parties would settle without trying the entire case. Trial on the first issue is scheduled to begin on November 13, 2006. The Court also requested the parties to mediate on a contemporaneous track.

The ultimate financial impact of the lawsuit is not yet determinable. Therefore, no provision for loss, if any, has been recorded in the financial statements.

(b) **Redondo/Perini Joint Venture vs. Siemens Transportation Matter**

This is a binding arbitration proceeding arising out of a contract between the Redondo/Perini Joint Venture, or RPJV, a joint venture in which Perini and Redondo Construction Corp., or Redondo, each have a 50% interest and the Siemens Transportation Partnership, S.E., Puerto Rico, or STP. STP is constructing a public metropolitan passenger rail transportation project for the Commonwealth of Puerto Rico and RPJV is responsible for the design and construction of a portion of the project.

On March 19, 2002, Redondo filed a petition for reorganization under Chapter 11 in U.S. Bankruptcy Court for the District of Puerto Rico. On December 23, 2002, RPJV filed an arbitration demand against STP seeking the recovery of additional costs related to design changes and the late completion of the design. On January 31, 2003, STP filed a counter-demand against RPJV seeking the recovery of damages allegedly related to defects in design and construction and the late completion of RPJV's work along with the repayment for alleged advances previously paid to RPJV.

On October 7, 2004, STP filed suit against Perini in New York State court seeking enforcement against Perini of a Guaranty Agreement that allegedly guarantees the performance and payment obligations of the subject RPJV/Siemens Contract in an amount to be determined at trial, but not less than \$27 million. This action has been stayed pending the arbitration.

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On March 14, 2006, the arbitration panel issued a final award on Phase I of the arbitration, awarding RPJV approximately \$16.2 million on its claim and awarding STP approximately \$0.5 million on its claim, for a net award to RPJV of approximately \$15.7 million, payable in thirty days. The arbitrators also deferred decision on an additional amount of approximately \$15.5 million of RPJV's Phase I claims until the conclusion of Phase II. Subsequently, STP filed a Motion to Stay Enforcement of the Phase I arbitration award, together with a petition for an order to vacate, annul and set aside the award. The motion was denied and the arbitration award was confirmed. As a result, a judgment has been entered, as of September 29, 2006, in favor of RPJV and against STP in the sum of approximately \$16.0 million, including prejudgment interest from April 13, 2006 through September

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(5) Contingencies and Commitments (continued)

(b) **Redondo/Perini Joint Venture vs. Siemens Transportation Matter (continued)**

29, 2006, totaling approximately \$0.3 million. Interest accrues on the judgment from September 29, 2006 at 9% per annum. STP has filed an appeal of the judgment.

There will be a second phase of the arbitration, which will include claims which existed on or after September 29, 2003. The parties exchanged statements of claim on July 24, 2006. RPJV's claim is \$23,183,341, plus interest. STP's claim is \$17,500,000. Discovery has started, but no hearings have been held. Hearings are scheduled to start in March 2007.

Management has made an estimate of the anticipated total cost recovery on this project and it is included in revenue recorded to date. To the extent new facts become known or the final cost recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

(c) **Perini/Kiewit/Cashman Joint Venture-Central Artery/Tunnel Project Matter**

Perini/Kiewit/Cashman Joint Venture, or PKC, a joint venture in which Perini holds a 56% interest and is the managing partner, is currently pursuing a series of claims for additional contract time and/or compensation against the Massachusetts Highway Department, or MHD, for work performed by PKC on a portion of the Central Artery/Tunnel project in Boston, Massachusetts. During construction, MHD ordered PKC to perform changes to the work and issued related direct cost changes with an estimated value, excluding time delay and inefficiency costs, in excess of \$100 million. In addition, PKC encountered a number of unforeseen conditions during construction that greatly increased PKC's cost of performance.

Certain of PKC's claims have been presented to a Disputes Review Board, or the DRB, which consists of three construction experts chosen by the parties. To date, the DRB has ruled on a binding basis that PKC is entitled to additional compensation for its contract time delay claim in the amount of \$17.4 million. On March 20, 2002, the Superior Court of the Commonwealth of Massachusetts approved PKC's request to confirm the DRB's \$17.4 million award. The MHD appealed the Superior Court decision to the Appeals Court of the Commonwealth of Massachusetts which affirmed the Superior Court's confirmation of the DRB's award on May 30, 2006.

The DRB has also ruled on a binding basis that PKC is entitled to four additional compensation awards, less credits, totaling \$39.8 million for impacts and efficiencies caused by MHD to certain of PKC's work. The first two such awards, totaling \$17.1 million, have been confirmed by the Superior Court and were not appealed. MHD has filed actions in the Superior Court seeking to vacate the other two awards, and PKC has answered, seeking to confirm them. These actions have not yet been heard.

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Under the dispute resolution rules of the contract, either party may periodically terminate the services of some or all of the DRB members, provided that members who are removed under this provision will remain on the DRB through the completion of any then pending claims. The MHD removed the "Second DRB" members and the Third DRB members have been agreed upon and have begun hearing claims. The remaining claims to be decided by the Third DRB on a binding basis have an anticipated value of approximately \$104 million (exclusive of interest). MHD disputes that the remaining claims before the Third DRB may be decided on a binding basis. Hearings before the Third DRB began in October 2006 and are scheduled to occur throughout the remainder of 2006 and into early 2007.

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(5) Contingencies and Commitments (continued)

(c) Perini/Kiewit/Cashman Joint Venture-Central Artery/Tunnel Project Matter (continued)

Management has made an estimate of the total anticipated cost recovery on this project and it is included in revenue recorded to date. To the extent new facts become known or the final cost recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

On August 14, 2002, the Massachusetts Attorney General's office, pursuant to its authority under the Massachusetts False Claims Act, served a Civil Investigative Demand ("CID") on Perini and the other joint venture partners. The CID sought the production of certain construction claims documentation in connection with the Central Artery/Tunnel Contract No. C11A1. In September

2004, the Attorney General's office presented a list of items that it believed constitutes possible false claims. PKC made a responsive presentation to the Attorney General's office in January 2005. PKC vigorously denies that it submitted any false claims and is cooperating with the Attorney General's office in the ongoing investigation.

(d) Investigation by U.S. Attorney for Eastern District of New York

In 2001, the Company received a grand jury subpoena for documents in connection with an investigation by the U.S. Attorney's Office for the Eastern District of New York. The Company's understanding is that the investigation concerns contracting with disadvantaged, minority, and women-owned businesses in the New York City area construction industry. The Company has cooperated with the U. S. Attorney's Office in the investigation and produced documents pursuant to the subpoena in 2001 and 2002. In August 2006, the Company received two additional grand jury subpoenas for documents in connection with the same investigation. The Company subsequently produced documents pursuant to those subpoenas, and continues to cooperate in the investigation. To date, the Company has not been named a subject or a target of the investigation.

In discussions with the U.S. Attorney's Office to resolve the investigation, the Company has indicated that it would be amenable to some form of civil settlement. It is the Company's understanding that lawyers for two individual Perini Civil employees also are in discussions with the U.S. Attorney's Office related to the investigation. The Company is unable to evaluate the potential impact, if any, of the investigation at this time.

(6) Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)) using the modified prospective application method and, accordingly, prior period amounts have not been restated. SFAS No. 123(R) establishes the accounting treatment for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123(R), share-based compensation is measured at the grant date based on the calculated fair value of the award. The compensation expense is recognized over the employees' requisite service period, which is generally the vesting period of the award. SFAS No. 123(R) also requires the related excess tax benefit received upon exercise of stock options or vesting of restricted stock, if any, to be reflected, when realized, in the statement of cash flows as a financing activity rather than an operating activity. Excess tax benefits will be recorded when (i) a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes, and (ii) the deduction actually produces a cash benefit.



**PERINI CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(Continued)

**(6) Stock-Based Compensation (continued)**

In November 2005, the Financial Accounting Standards Board issued its Staff Position No. 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards ( FSP 123(R)-3 ). The Company has elected to adopt the alternative transition method provided in FSP 123(R)-3 for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool ( APIC Pool ) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC Pool and the Consolidated Condensed Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R).

From January 1, 2004 through December 31, 2005, the Company accounted for stock-based compensation in accordance with SFAS No. 123, Accounting for Stock-Based Compensation . Therefore, the adoption of the provisions of SFAS No. 123(R) did not have a significant impact on the Company's financial position or results of operations.

In May 2004, the Company's stockholders approved the adoption of the 2004 Stock Option and Incentive Plan which provided that up to 1,000,000 shares of the Company's common stock would be available for the granting of stock-based compensation awards to key executives, employees and directors of the Company. In May 2006, the Company's stockholders approved an amendment to the plan that increased the number of shares of the Company's common stock available for issuance thereunder from 1,000,000 shares to 3,000,000 shares.

The plan allows these stock-based compensation awards to be granted in a variety of forms, including stock options, stock appreciation rights, restricted stock awards, unrestricted stock awards, deferred stock awards and dividend equivalent rights. In 2004, 300,000 restricted stock units were granted under the plan with a grant date fair value of \$4.7 million. As of September 30, 2006, all of these restricted stock units were vested and 300,000 shares of the Company's common stock have been issued. For the nine months ended September 30, 2006 and 2005, the Company recognized compensation expense of \$0.6 million and \$2.9 million, respectively, related to these restricted stock units and these amounts are included as a component of General and Administrative Expenses in the Consolidated Condensed Statements of Income.

On April 5, 2006 and May 18, 2006, the Compensation Committee of the Company's Board of Directors approved the grant of 1,295,000 restricted stock units to certain of its executive officers and employees under the 2004 Stock Option and Incentive Plan. 150,000 restricted stock units vested on June 30, 2006. 765,000 of the remaining restricted stock units generally vest equally on December 31 of 2007, 2008 and 2009, and 380,000 of the remaining restricted stock units generally vest on December 31, 2009. 745,000 of the restricted stock units granted (including the 150,000 restricted stock units that vested on June 30, 2006) are subject only to satisfaction of service requirements; the remaining 550,000 restricted stock units granted are subject to satisfaction of both service requirements and achievement of certain pre-established pretax income performance criteria. Upon vesting, each restricted stock unit will be exchanged for one share of the Company's common stock. The grant date fair value of these restricted stock units is \$40.7 million based on the closing price of the Company's common stock on the grant dates of April 5, 2006 and May 18, 2006. For the three month and nine month periods ended September 30, 2006, the Company recognized compensation expense of \$4.0 million and \$12.6 million, respectively, related to these restricted stock units and these amounts are included as a component of General and Administrative Expenses in the Consolidated Condensed Statements of Income. Accordingly, at September 30, 2006, there was \$28.1 million of unrecognized compensation cost related to the non-vested restricted stock units outstanding. That cost is expected to



## PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(6) Stock-Based Compensation (continued)

be recognized over a weighted average period of 2.6 years from that date.

A summary of stock-based compensation awards related to the restricted stock units outstanding under the Company's 2004 Stock Option and Incentive Plan for the nine months ended September 30, 2006 is as follows:

|                                   | Number<br>of Shares | Weighted Average<br>Grant Date<br>Fair Value | Shares<br>Available<br>to Grant |
|-----------------------------------|---------------------|----------------------------------------------|---------------------------------|
| Outstanding at January 1, 2006    | 150,000             | \$15.62                                      | 700,000                         |
| Approved Plan Amendment           | -                   | -                                            | 2,000,000                       |
| Granted                           | 1,295,000           | \$31.44                                      | (1,295,000)                     |
| Vested and Issued                 | (300,000)           | \$23.58                                      | -                               |
| Outstanding at September 30, 2006 | 1,145,000           | \$31.43                                      | 1,405,000                       |

The aggregate intrinsic value of the restricted stock units outstanding at September 30, 2006 is approximately \$23.9 million.

In May 2000, the Company's stockholders approved the adoption of the Special Equity Incentive Plan which provides that up to 3,000,000 shares of the Company's common stock will be available for the granting of nonqualified stock options to key executives, employees and directors of the Company. Options are granted at not less than the fair market value on the date of grant, as defined. Options generally expire 10 years from the date of grant. Options outstanding under the Special Equity Incentive Plan are generally exercisable in three equal annual installments, on the date of grant and on the first and second anniversary of the date of grant. As of September 30, 2006, all of the options outstanding were exercisable. A summary of stock option activity related to the Company's Special Equity Incentive Plan is as follows:

|                                   | Number<br>of Shares | Exercise Price Per Share<br>Range | Weighted<br>Average | Shares<br>Available<br>to Grant |
|-----------------------------------|---------------------|-----------------------------------|---------------------|---------------------------------|
| Outstanding at January 1, 2006    | 454,000             | \$3.13 - \$4.50                   | \$4.42              | 195,634                         |
| Exercised                         | (120,000)           | \$4.50                            | \$4.50              | -                               |
| Outstanding at September 30, 2006 | 334,000             | \$3.13 - \$4.50                   | \$4.40              | 195,634                         |

Shares of the Company's authorized but unissued common stock have been reserved for issuance to employees under its 1982 Stock Option Plan. Although the provisions of the 1982 Stock Option Plan expired during 2002, the Company still has 5,000 shares of authorized but unissued common stock reserved for issuance under the plan applicable to the remaining outstanding options. As of September 30, 2006, all of the 5,000 options outstanding were exercisable at an exercise price of \$5.29 per share.



## PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(6) Stock-Based Compensation (continued)

Options outstanding at September 30, 2006 under the aforementioned plans and related weighted average price and life information follows:

| Remaining<br>Life (Years) | Grant<br>Date | Options<br>Outstanding | Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|---------------------------|---------------|------------------------|------------------------|------------------------------------------|---------------------------------|
| <1                        | 12/10/1998    | 5,000                  | 5,000                  | \$5.29                                   | \$ 77,963                       |
| 4                         | 3/29/2000     | 241,500                | 241,500                | \$4.50                                   | 3,955,770                       |
| 4                         | 5/25/2000     | 45,000                 | 45,000                 | \$3.74                                   | 771,475                         |
| 4                         | 9/12/2000     | 47,500                 | 47,500                 | \$4.50                                   | 778,050                         |
| Totals                    |               | 339,000                | 339,000                | \$4.41                                   | \$ 5,583,258                    |

(7) Earnings per Common Share

Basic earnings per common share was computed by dividing net income less the sum of (i) dividends accrued on the \$21.25 Preferred Stock and (ii) the excess of the fair value of the consideration given over the carrying value upon redemption of the \$21.25 Preferred Stock during the period (see Note 8) by the weighted average number of common shares outstanding. Diluted earnings per common share was similarly computed after giving consideration to the dilutive effect of stock options, warrants and restricted stock units outstanding on the weighted average number of common shares outstanding.

There were no options or stock purchase warrants whose exercise price exceeded the average market price of the Common Stock at September 30, 2006 and 2005. The effect of the assumed conversion of the Company's outstanding \$21.25 Preferred Stock into Common Stock was antidilutive for all applicable periods presented.

(8) Dividends(a) Common Stock

There were no cash dividends declared or paid on the Company's outstanding Common Stock during the periods presented in the consolidated condensed financial statements included herein.

(b) \$21.25 Preferred Stock

The Company redeemed all remaining outstanding Depositary Shares on May 17, 2006, in accordance with the terms of the \$21.25 Preferred Stock, at a price of \$25.00 per share plus accrued and unpaid dividends to that date, for an aggregate amount of approximately \$8.8 million.

## PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(9) Business Segments

The following tables set forth certain business segment information relating to the Company's operations for the nine month and three month periods ended September 30, 2006 and 2005 (in thousands):

Nine months ended September 30, 2006

|                                            | Reportable Segments |            | Management Services | Totals      | Corporate  |    | Consolidated Total |
|--------------------------------------------|---------------------|------------|---------------------|-------------|------------|----|--------------------|
|                                            | Building            | Civil      |                     |             |            |    |                    |
| Revenues                                   | \$1,714,014         | \$ 206,347 | \$178,146           | \$2,098,507 | \$ -       |    | \$2,098,507        |
| Income (Loss) from Construction Operations | \$ 39,476           | \$ (516)   | \$ 20,599           | \$ 59,559   | \$(19,685) | *  | \$ 39,874          |
| Assets                                     | \$ 624,371          | \$ 267,548 | \$ 54,262           | \$ 946,181  | \$ 92,782  | ** | \$1,038,963        |

Nine months ended September 30, 2005

|                                     | Reportable Segments |            | Management Services | Totals      | Corporate  |    | Consolidated Total |
|-------------------------------------|---------------------|------------|---------------------|-------------|------------|----|--------------------|
|                                     | Building            | Civil      |                     |             |            |    |                    |
| Revenues                            | \$ 719,415          | \$ 191,956 | \$218,880           | \$1,130,251 | \$ -       |    | \$1,130,251        |
| Income from Construction Operations | \$ 17,595           | \$ 7,758   | \$ 15,829           | \$ 41,182   | \$(10,209) | *  | \$ 30,973          |
| Assets                              | \$ 235,391          | \$ 279,029 | \$ 39,817           | \$ 554,237  | \$ 63,776  | ** | \$ 618,013         |

Three months ended September 30, 2006

|                                            | Reportable Segments |            | Management Services | Totals     | Corporate |   | Consolidated Total |
|--------------------------------------------|---------------------|------------|---------------------|------------|-----------|---|--------------------|
|                                            | Building            | Civil      |                     |            |           |   |                    |
| Revenues                                   | \$ 643,642          | \$ 64,012  | \$ 65,628           | \$ 773,282 | \$ -      |   | \$ 773,282         |
| Income (Loss) from Construction Operations | \$ 15,531           | \$ (6,665) | \$ 13,955           | \$ 22,821  | \$(5,871) | * | \$ 16,950          |

Three months ended September 30, 2005

|                                     | Reportable Segments |           | Management Services | Totals     | Corporate  |   | Consolidated Total |
|-------------------------------------|---------------------|-----------|---------------------|------------|------------|---|--------------------|
|                                     | Building            | Civil     |                     |            |            |   |                    |
| Revenues                            | \$ 246,976          | \$ 77,860 | \$ 55,478           | \$ 380,314 | \$ -       |   | \$ 380,314         |
| Income from Construction Operations | \$ 6,661            | \$ 3,365  | \$ 3,686            | \$ 13,712  | \$ (3,635) | * | \$ 10,077          |

\* In all periods, consists of corporate general and administrative expenses.

\*\* In all periods, corporate assets consist principally of cash and cash equivalents, net deferred tax asset, land held for sale and other investments available for general corporate purposes.

## PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

**(10) Employee Pension Plans**

The Company has a defined benefit pension plan that covers its executive, professional, administrative and clerical employees, subject to certain specified service requirements. The Company also has an unfunded supplemental retirement plan for certain employees whose benefits under the defined benefit plan are reduced because of compensation limitations under federal tax laws. Effective June 1, 2004, all benefit accruals under the Company's pension plan were frozen; however, the current vested benefit will be preserved. In accordance with SFAS No. 132(R),

Employers' Disclosures About Pensions and Other Post-Retirement Benefits, the pension disclosure presented below includes aggregated amounts for both of the Company's plans. The following table sets forth the net pension cost by component for the three month and nine month periods ended September 30, 2006 and 2005 (in thousands):

|                                               | <b>Three Months<br/>Ended Sept. 30,</b> |             | <b>Nine Months<br/>Ended Sept. 30,</b> |             |
|-----------------------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                               | <b>2006</b>                             | <b>2005</b> | <b>2006</b>                            | <b>2005</b> |
| Interest cost on projected benefit obligation | \$ 1,075                                | \$ 997      | \$ 3,225                               | \$ 3,139    |
| Expected return on plan assets                | (1,089)                                 | (1,175)     | (3,268)                                | (3,099)     |
| Recognized actuarial loss                     | 554                                     | 355         | 1,663                                  | 1,245       |
| Net Pension Cost                              | \$ 540                                  | \$ 177      | \$ 1,620                               | \$ 1,285    |

The Company contributed \$3.0 million to its defined benefit pension plan on April 6, 2006, and contributed an additional \$3.0 million on September 5, 2006.

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

**Overview**

Perini Corporation is a leading construction services company, based on revenues, as ranked by *Engineering News-Record*, offering diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. We have provided construction services since 1894 and have established a strong reputation within our markets for executing large, complex projects on time and within budget while adhering to strict quality control measures. We offer general contracting, pre-construction planning and comprehensive project management services, including planning and scheduling the manpower, equipment, materials and subcontractors required for a project. We also offer self-performed construction services including site work, demolition, concrete forming and placement and steel erection.

Our business is conducted through three primary segments: building, civil, and management services. Our building segment focuses on large, complex projects in the hospitality and gaming, sports and entertainment, education, transportation, healthcare, biotech, pharmaceutical and high-tech markets. Our civil segment specializes in public works construction in the eastern United States, primarily in metropolitan New York, including the repair, replacement and reconstruction of infrastructure such as highways, bridges, mass transit systems and wastewater treatment facilities. Our management services segment provides diversified construction, design-build and maintenance services to the U.S. military and government agencies, as well as power producers, surety companies and multi-national corporations in the United States and overseas.

**Significant Accounting Policies**

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Our critical accounting policies are also identified and discussed in Item 7 of said Annual Report on Form 10-K. We have made no significant change in these policies during 2006 except as described below.

*Adoption of SFAS No. 123(R), Share-Based Payment*

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)) using the modified prospective application method and, accordingly, prior period amounts have not been restated. SFAS No. 123(R) establishes the accounting treatment for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123(R), share-based compensation is measured at the grant date based on the calculated fair value of the award. The compensation expense is recognized over the employees' requisite service period, generally the vesting period of the award. SFAS No. 123(R) also requires the related excess tax benefit received upon exercise of stock options or vesting of restricted stock, if any, to be reflected, when realized, in the statement of cash flows as a financing activity rather than an operating activity. Excess tax benefits will be recorded when (i) a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes, and (ii) the deduction actually produces a cash benefit.

In November 2005, the Financial Accounting Standards Board issued its Staff Position No. 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards* (FSP 123(R)-3). We have elected to adopt the alternative transition method provided in FSP 123(R)-3 for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC Pool and the Consolidated Condensed Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R).



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From January 1, 2004 through December 31, 2005, we accounted for stock-based compensation in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. Therefore, the adoption of the provisions of SFAS No. 123(R) did not have a significant impact on our financial position or results of operations.

### *New Accounting Standards*

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* which requires an employer to recognize the over funded or under funded status of defined benefit and other postretirement plans as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through an adjustment to comprehensive income in stockholders' equity. We are required to adopt the provisions of SFAS No. 158 as of December 31, 2006 and we are in the process of determining the impact the adoption of SFAS No. 158 will have on our consolidated financial statements and related disclosures.

In addition, SFAS No. 158 requires an employer to measure the funded status of a plan as of the date of its fiscal year-end, with limited exceptions. We currently use the date of our fiscal year-end as our measurement date and, as a result, that new requirement will not affect us.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for consistently measuring fair value under accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 is effective for us beginning January 1, 2008, and the provisions will be applied prospectively as of that date. We are in the process of determining the impact, if any, the adoption of SFAS No. 157 will have on our consolidated financial statements and related disclosures when it becomes effective in 2008.

In June 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ) which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We are required to adopt FIN 48 as of January 1, 2007 and we are in the process of determining the impact, if any, the adoption of FIN 48 will have on our consolidated financial statements and related disclosures.

### **Recent Developments**

#### *Redemption of Preferred Stock*

On May 17, 2006, we redeemed all remaining outstanding Depositary Shares at a price of \$25.00 per share plus accrued and unpaid dividends to that date, for an aggregate amount of approximately \$8.8 million. As a result of the redemption, the holders of Depositary Shares were not eligible to elect directors at our 2006 Annual Meeting of Stockholders.

#### *Grant of Restricted Stock Units*

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On April 5, 2006 and May 18, 2006, the Compensation Committee of our Board of Directors approved the grant of 1,295,000 restricted stock units to certain of our executive officers and employees under our 2004 Stock Option and Incentive Plan. 150,000 of the restricted stock units granted vested on June 30, 2006. 765,000 of the remaining restricted stock units generally vest equally on December 31 of 2007, 2008 and 2009 and 380,000 of the remaining restricted stock units generally vest on December 31, 2009. 745,000 of the restricted stock units granted (including the 150,000 restricted stock units that vested on June 30, 2006) are subject only to satisfaction of service requirements; the remaining 550,000 restricted stock units granted are subject to satisfaction of both service requirements and achievement of certain pre-established pretax income performance criteria. Upon vesting, each restricted stock unit will be exchanged for one share of our common stock. We are accounting for these grants of restricted stock

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units in accordance with SFAS No. 123(R), *Share-Based Payment*, beginning in the second quarter of 2006. The weighted average grant date fair value of each of these restricted stock units is \$31.44 based on the closing price of our common stock on the dates of grant. For the three month and nine month periods ended September 30, 2006, we recognized a pretax charge of \$4.0 million and \$12.6 million, respectively, for compensation cost related to these restricted stock units. The financial impact of the future recognition of compensation cost related to these restricted stock units is expected to be material to our results of operations for 2006 through 2009. Absent significant forfeitures in the future, we estimate that \$28.1 million of compensation cost related to these restricted stock units will be recognized over a weighted average period of 2.6 years from September 30, 2006.

### *Backlog of \$9.0 Billion*

Our backlog of uncompleted construction work at September 30, 2006 was approximately \$9.0 billion, a 13% increase from our previous all-time record backlog of \$7.9 billion as of December 31, 2005. The September 30, 2006 backlog includes new contract awards added during the third quarter of 2006 totaling \$719 million, including the addition of \$256 million of new awards at Rudolph and Sletten, which includes \$222 million of healthcare related awards, \$225 million in new civil construction contracts, and approximately \$164 million of additional work in the hospitality and gaming market in Las Vegas, Nevada, Connecticut and Maryland.

|                     | <b>Backlog at<br/>Dec. 31, 2005</b> | <b>New Business<br/>Awarded</b> | <b>Revenue<br/>Recognized</b> | <b>Backlog at<br/>Sept. 30, 2006</b> |
|---------------------|-------------------------------------|---------------------------------|-------------------------------|--------------------------------------|
|                     | (In millions)                       |                                 |                               |                                      |
| Building            | \$ 7,180.4                          | \$ 2,811.8                      | \$ (1,714.0)                  | \$ 8,278.2                           |
| Civil               | 423.0                               | 245.3                           | (206.4)                       | 461.9                                |
| Management Services | 294.4                               | 99.1                            | (178.1)                       | 215.4                                |
| Total               | \$ 7,897.8                          | \$ 3,156.2                      | \$ (2,098.5)                  | \$ 8,955.5                           |

### **Results of Operations**

#### **Comparison of the Third Quarter of 2006 with the Third Quarter of 2005**

Revenues increased by \$392.9 million, gross profit increased by \$18.3 million, income from operations increased by \$6.9 million, and net income increased by \$3.6 million (or 60.0%) in 2006, due primarily to the addition of Rudolph & Sletten which we acquired in October 2005, and to an increased volume of work in the hospitality and gaming market as a result of the significant new contract awards received in the latter half of 2005, as well improved operating results in our management services operations. The third quarter of 2006 results include a \$3.5 million pretax increase in stock-based compensation expense resulting from certain restricted stock units granted in April and May of 2006. Basic earnings per common share were \$0.36 for the third quarter of 2006, compared to \$0.22 for the third quarter of 2005. Similarly, diluted earnings per common share were \$0.36 for the third quarter of 2006, compared to \$0.22 for the second quarter of 2005.

|                     | <b>Revenues for the<br/>Three Months Ended Sept. 30,</b> |             | <b>Increase</b>   | <b>%</b>      |
|---------------------|----------------------------------------------------------|-------------|-------------------|---------------|
|                     | <b>2006</b>                                              | <b>2005</b> | <b>(Decrease)</b> | <b>Change</b> |
|                     | (In millions)                                            |             |                   |               |
| Building            | \$ 643.7                                                 | \$ 247.0    | \$ 396.7          | 160.6 %       |
| Civil               | 64.0                                                     | 77.9        | (13.9)            | (17.8)%       |
| Management Services | 65.6                                                     | 55.5        | 10.1              | 18.2 %        |
| Total               | \$ 773.3                                                 | \$ 380.4    | \$ 392.9          | 103.3 %       |

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Overall revenues increased by \$392.9 million (or 103.3%), from \$380.4 million in 2005 to \$773.3 million in 2006. This increase was due primarily to an increase in building construction revenues of \$396.7 million

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(or 160.6%), from \$247.0 million in 2005 to \$643.7 million in 2006, due to the addition of Rudolph & Sletten, and to an increased volume of work in the hospitality and gaming market as a result of the significant new contract awards received in the latter half of 2005. Without the addition of Rudolph & Sletten, building construction revenues would have increased by \$180.2 million (or 73.0%) in 2006. Management services revenues increased by \$10.1 million (or 18.2%), from \$55.5 million in 2005 to \$65.6 million in 2006, due primarily to new task orders received for work in Iraq. Partly offsetting these increases was a decrease in civil construction revenues of \$13.9 million (or 17.8%), from \$77.9 million in 2005 to \$64.0 million in 2006, due primarily to a decreased volume of work in the Mid-Atlantic region due to the timing of the start-up of new work.

|                     | <b>Income (Loss) from Construction<br/>Operations for the<br/>Three Months Ended Sept. 30,</b> |             | <b>Increase<br/>(Decrease)<br/>In Income</b> | <b>%<br/>Change</b> |
|---------------------|------------------------------------------------------------------------------------------------|-------------|----------------------------------------------|---------------------|
|                     | <b>2006</b>                                                                                    | <b>2005</b> |                                              |                     |
|                     | (In millions)                                                                                  |             |                                              |                     |
| Building            | \$ 15.6                                                                                        | \$ 6.7      | \$ 8.9                                       | 132.8%              |
| Civil               | (6.7)                                                                                          | 3.3         | (10.0)                                       | (303.0)%            |
| Management Services | 13.9                                                                                           | 3.7         | 10.2                                         | 275.7%              |
| Subtotal            | \$ 22.8                                                                                        | \$ 13.7     | \$ 9.1                                       | 66.4%               |
| Less: Corporate     | (5.8)                                                                                          | (3.6)       | (2.2)                                        | (61.1)%             |
| Total               | \$ 17.0                                                                                        | \$ 10.1     | \$ 6.9                                       | 68.3%               |

Income from operations (excluding corporate) increased by \$9.1 million (or 66.4%), from \$13.7 million in 2005 to \$22.8 million in 2006. Building construction income from operations increased by \$8.9 million (or 132.8%), from \$6.7 million in 2005 to \$15.6 million in 2006, due primarily to the increased revenues discussed above. Without the addition of Rudolph & Sletten, building construction income from operations would have increased by \$2.7 million (or 40.3%) due primarily to the increased volume of work in the hospitality and gaming market as a result of the significant new contract awards received in the latter half of 2005. Building construction income from operations was negatively impacted by a \$1.4 million charge related to stock-based compensation expense resulting from certain restricted stock units granted in April and May of 2006. Management services income from operations increased by \$10.2 million (or 275.7%), from \$3.7 million in 2005 to \$13.9 million in 2006, due primarily to favorable profit adjustments of approximately \$10.9 million on projects in Iraq including savings on project execution and contract closeout. Civil construction income from operations decreased by \$10.0 million (or 303.0%), from a profit of \$3.3 million in 2005 to a loss of \$6.7 million in 2006, due primarily to approximately \$6.7 million of downward profit adjustments on several projects, including a roadway project in Maryland. In addition, civil construction income from operations was negatively impacted by a \$0.5 million charge related to stock-based compensation expense resulting from certain restricted stock units granted in April 2006. Overall income from operations was negatively impacted by a \$2.2 million increase in corporate general and administrative expenses, from \$3.6 million in 2005 to \$5.8 million in 2006, due primarily to a \$2.2 million increase in corporate incentive compensation, including a \$1.7 million increase in corporate stock-based compensation expense resulting from the amortization of certain restricted stock awards granted in April 2006 and December 2004.

Other income (expense) increased by \$0.5 million, from income of \$0.1 million in 2005 to income of \$0.6 million in 2006, due primarily to an increase in interest income as a result of an increase in cash available for short-term investment due largely to the positive cash flow generated from operating activities.

Interest expense increased by \$0.6 million, from \$0.4 million in 2005 to \$1.0 million in 2006, due primarily to increased borrowings related to the \$30 million term loan received as part of the credit agreement in October 2005, which we used to refinance a portion of the purchase price for the Rudolph & Sletten acquisition.

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The provision for income taxes increased by \$3.2 million, from \$3.8 million in 2005 to \$7.0 million in 2006, due primarily to the increase in pretax income in 2006 and a higher effective tax rate.

### Comparison of the Nine Months Ended September 30, 2006 with the Nine Months Ended September 30, 2005

Revenues increased by \$968.2 million, gross profit increased by \$40.5 million, income from construction operations increased by \$18.4 million, and net income increased by \$4.2 million (or 23.3%) in 2006. These increases primarily reflect the addition of Rudolph & Sletten which we acquired in October 2005, and to an increased volume of work in the hospitality and gaming market as a result of the significant new contract awards received in the latter half of 2005. The operating results for the nine months ended September 30, 2006 were negatively impacted by a \$10.3 million pretax increase in stock-based compensation expense resulting from restricted stock units granted in April and May 2006. Basic earnings per common share were \$0.83 for the nine months ended September 30, 2006, compared to \$0.67 for the nine months ended September 30, 2005. Diluted earnings per common share were \$0.82 for the nine months ended September 30, 2006, compared to \$0.66 for the nine months ended September 30, 2005.

|                     | <b>Revenues for the<br/>Nine Months Ended Sept. 30,<br/>2006                      2005</b> |            | <b>Increase<br/>(Decrease)</b> | <b>%<br/>Change</b> |
|---------------------|--------------------------------------------------------------------------------------------|------------|--------------------------------|---------------------|
|                     | (In millions)                                                                              |            |                                |                     |
| Building            | \$ 1,714.0                                                                                 | \$ 719.4   | \$ 994.6                       | 138.3 %             |
| Civil               | 206.4                                                                                      | 192.0      | 14.4                           | 7.5 %               |
| Management Services | 178.1                                                                                      | 218.9      | (40.8)                         | (18.6)%             |
| Total               | \$ 2,098.5                                                                                 | \$ 1,130.3 | \$ 968.2                       | 85.7 %              |

Overall revenues increased by \$968.2 million (or 85.7%), from \$1,130.3 million in 2005 to \$2,098.5 million in 2006. This increase was due primarily to an increase in building construction revenues of \$994.6 million (or 138.3%), from \$719.4 million in 2005 to \$1,714.0 million in 2006, due to the addition of Rudolph & Sletten, and to an increased volume of work in the hospitality and gaming market as a result of the significant new contract awards received in the latter half of 2005. Without the addition of Rudolph & Sletten, building construction revenues would have increased by \$402.4 million (or 55.9%) in 2006. Civil construction revenues increased by \$14.4 million (or 7.5%), from \$192.0 million in 2005 to \$206.4 million in 2006, due primarily to the higher backlog of civil construction work entering 2006 compared to 2005. Partly offsetting these increases was a decrease in management services revenues of \$40.8 million (or 18.6%), from \$218.9 million in 2005 to \$178.1 million in 2006, due primarily to a decreased volume of work in Afghanistan.

|                     | <b>Income (Loss) from Construction<br/>Operations for the<br/>Nine Months Ended Sept. 30,<br/>2006                      2005</b> |         | <b>Increase<br/>(Decrease)<br/>In Income</b> | <b>%<br/>Change</b> |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|----------------------------------------------|---------------------|
|                     | (In millions)                                                                                                                    |         |                                              |                     |
| Building            | \$ 39.5                                                                                                                          | \$ 17.6 | \$ 21.9                                      | 124.4%              |
| Civil               | (0.5)                                                                                                                            | 7.8     | (8.3)                                        | (106.4)%            |
| Management Services | 20.6                                                                                                                             | 15.8    | 4.8                                          | 30.4%               |
| Subtotal            | \$ 59.6                                                                                                                          | \$ 41.2 | \$ 18.4                                      | 44.7%               |
| Less: Corporate     | (19.7)                                                                                                                           | (10.2)  | (9.5)                                        | (93.1)%             |
| Total               | \$ 39.9                                                                                                                          | \$ 31.0 | \$ 8.9                                       | 28.7%               |



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Income from operations (excluding corporate) increased by \$18.4 million (or 44.7%), from \$41.2 million in 2005 to \$59.6 million in 2006. Building construction income from operations increased by \$21.9 million (or 124.4%), from \$17.6 million in 2005 to \$39.5 million in 2006, due primarily to the increased revenues discussed above. Without the addition of Rudolph & Sletten, building construction income from operations would have increased by \$8.2 million (or 46.6%) due primarily to the increased volume of work in the hospitality and gaming market as a result of the significant new contract awards received in the latter half of 2005. Building construction income from operations was negatively impacted by a \$2.7 million charge related to stock-based compensation expense resulting from certain restricted stock units granted in April and May of 2006. Civil construction income from operations decreased by \$8.3 million (or 106.4%), from income of \$7.8 million in 2005 to a loss of \$0.5 million in 2006, due primarily to downward profit adjustments on several projects in the Mid-Atlantic and southeast regions, including a roadway project in Maryland. Civil construction income from operations was negatively impacted by a \$1.0 million charge related to stock-based compensation expense resulting from certain restricted stock units granted in April 2006. Despite the decrease in revenues discussed above, management services income from operations increased by \$4.8 million (or 30.4%), from \$15.8 million in 2005 to \$20.6 million in 2006, due primarily to favorable profit adjustments on projects in Iraq, including savings on project execution and contract closeout. In addition, management services income from operations benefited from a \$1.2 million decrease in management services-related general and administrative expenses, due primarily to a \$0.6 million decrease in stock-based compensation expense resulting from the amortization of certain restricted stock awards granted in April 2006 and August 2004. Overall income from operations was negatively impacted by a \$9.5 million increase in corporate general and administrative expenses, from \$10.2 million in 2005 to \$19.7 million in 2006, due primarily to a \$7.2 million increase in corporate stock-based compensation expense resulting from the amortization of certain restricted stock units granted in April 2006 and December 2004, as well as the write-off of approximately \$1.4 million of expenses related to our decision to not proceed with our debt offering in the second quarter of 2006.

Other income (expense) increased by \$1.7 million, from an expense of \$0.4 million in 2005 to income of \$1.3 million in 2006, due primarily to an increase in interest income as a result of an increase in cash available for short-term investment due largely to the cash and investments obtained in the acquisition of Rudolph & Sletten and to the positive cash flow generated from operating activities.

Interest expense increased by \$1.8 million, from \$1.1 million in 2005 to \$2.9 million in 2006, due primarily to increased borrowings related to the \$30 million term loan received as part of the credit agreement in October 2005, which we used to refinance a portion of the purchase price for the Rudolph & Sletten acquisition.

The provision for income taxes increased by \$4.6 million, from \$11.5 million in 2005 to \$16.1 million in 2006, due primarily to the increase in pretax income in 2006 and a higher effective tax rate. The effective tax rate for 2006 of 42.0% exceeds the effective tax rate of 39.1% for 2005 due primarily to the estimated impact of certain executive officer compensation not deductible for tax purposes.

### **Liquidity and Capital Resources**

#### ***Cash and Working Capital***

We have an Amended and Restated Credit Agreement with Bank of America, N.A. and TD Banknorth (the "Credit Agreement"). The Credit Agreement provides for a secured revolving credit facility (the "Revolving Facility") of up to \$50 million which is scheduled to expire on June 30, 2008. At September 30, 2006, we had \$38.4 million available to borrow under the Revolving Facility. We are in discussions with Bank of America, N.A. on expanding the Revolving Facility.

In addition, the Credit Agreement provides for a \$30 million secured term loan (the "Term Loan"), which was used to refinance a portion of the purchase price for the Rudolph and Sletten acquisition. The Term Loan amortizes in equal quarterly principal payments of \$1.5 million commencing December 31, 2005 and continuing through October 14, 2010. The amount of the Term Loan outstanding at September 30, 2006



was \$24.0 million.

Interest accrues on borrowings under the Credit Agreement at an annual rate equal to, at our option, either (1) adjusted LIBOR plus 200 basis points or (2) the prime rate. Outstanding letters of credit under the Credit Agreement are subject to a per annum fee equal to 150 basis points. We are also required to pay administrative fees, commitment fees, letter of credit issuance and administration fees and certain expenses, and to provide certain indemnities, all of which we believe are customary for financings of this type.

The Credit Agreement requires us to meet certain financial covenants at the end of each fiscal quarter, including:

a minimum working capital ratio of current assets over current liabilities of at least 1.20 to 1.00;

a minimum tangible net worth of at least \$150 million plus, commencing with our fiscal quarter ended December 31, 2005, 50% of our consolidated net income for each consecutive two fiscal quarters ended on June 30 and December 31 of each year;

a minimum fixed charge coverage ratio of consolidated earnings before interest, taxes, depreciation and amortization, less capital expenditures over covered charges (which includes cash interest expense and tax payments, scheduled principal payments and current period dividends on our outstanding preferred stock) of at least 1.50 to 1.00 for four consecutive fiscal quarters;

a minimum net income of at least \$1.00 for each fiscal quarter; and

minimum operating profit levels of at least \$35 million in the aggregate (exclusive of the \$40.4 million WMATA charge recorded in the fourth quarter of 2005) for each of the four consecutive quarter periods ending March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006, and at least \$40 million in the aggregate for the four consecutive quarter period ending March 31, 2007 and for each period of four consecutive fiscal quarters ending thereafter.

The Credit Agreement also includes operating covenants which we believe are customary for financings of this type, including restrictions on indebtedness, liens, investments, restricted payments, mergers and the purchase and sale of assets outside of the normal course of business. The Credit Agreement also provides for events of default which we believe are customary for financings of this type, with corresponding grace periods.

Our obligations outstanding under the Credit Agreement are guaranteed by substantially all of our current and future subsidiaries, and are secured by substantially all of our and our subsidiaries' assets, including a pledge of all of the capital stock of our domestic subsidiaries.

Cash and cash equivalents as reported in the accompanying consolidated condensed financial statements consist of amounts held by us as well as our proportionate share of amounts held by construction joint ventures. Cash held by us is available for general corporate purposes while cash held by construction joint ventures is available only for joint venture-related uses. Joint venture cash and cash equivalents are not restricted to specific uses within those entities; however, the terms of the joint venture agreements limit our ability to distribute those funds and use them for corporate purposes. Cash held by construction joint ventures is distributed from time to time to us and to the other joint venture participants in accordance with our respective percentage interest after the joint venture partners determine that a cash distribution is prudent. Cash distributions received by us from our construction joint ventures are then available for general corporate purposes. At September 30, 2006 and December 31, 2005, cash held by us and available for general corporate purposes was \$83.0 million and \$99.7 million, respectively, and our proportionate

share of cash held by joint ventures and available only for joint venture-related uses was

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\$40.8 million and \$40.1 million, respectively.

A summary of cash flows for the nine month periods ended September 30, 2006 and 2005 is set forth below:

|                           | <b>Nine Months<br/>Ended Sept. 30,<br/>2006                      2005<br/>(In millions)</b> |           |
|---------------------------|---------------------------------------------------------------------------------------------|-----------|
| Cash flows from:          |                                                                                             |           |
| Operating activities      | \$ 12.2                                                                                     | \$ (10.0) |
| Investing activities      | (16.2)                                                                                      | (21.7)    |
| Financing activities      | (12.1)                                                                                      | (4.5)     |
| Net decrease in cash      | \$ (16.1)                                                                                   | \$ (36.2) |
| Cash at beginning of year | 139.9                                                                                       | 136.3     |
| Cash at end of period     | \$ 123.8                                                                                    | \$ 100.1  |

During the first nine months of 2006, we used \$16.1 million of cash on hand and \$12.2 million in cash flow generated from operating activities to fund \$16.2 million in cash flow used by investing activities, principally to fund the acquisition of construction equipment to support our substantial backlog; and \$12.1 million to fund cash flow used by financing activities, primarily to redeem the remaining outstanding shares of our \$21.25 Preferred Stock, and to pay down debt, including \$4.5 million for the Term Loan portion of our Credit Agreement, as well as to pay down debt assumed in conjunction with the acquisition of Cherry Hill.

Working capital increased from \$153.3 million at the end of 2005 to \$171.6 million at September 30, 2006. The current ratio of 1.23x at September 30, 2006 was the same as the current ratio at December 31, 2005.

### ***Long-term Debt***

Long-term debt at September 30, 2006 was \$36.7 million, a decrease of \$3.2 million from December 31, 2005, due to reductions in our Term Loan and in mortgage debt and equipment financing debt assumed in conjunction with the Cherry Hill acquisition. Accordingly, the long-term debt to equity ratio decreased from .22x at December 31, 2005 to .17x at September 30, 2006.

### ***Dividends***

There were no cash dividends declared or paid on our outstanding Common Stock during the periods presented herein.

We redeemed all remaining outstanding Depositary Shares on May 17, 2006, in accordance with the terms of our \$21.25 Preferred Stock, at a price of \$25.00 per share plus accrued and unpaid dividends to that date, for an aggregate amount of approximately \$8.8 million.

### **Forward-looking Statements**

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The statements contained in this Management's Discussion and Analysis of the Consolidated Condensed Financial Statements and other sections of this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including without limitation, statements regarding our expectations, hopes, beliefs, intentions or strategies regarding the future. These forward-looking statements 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 that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by such forward-looking statements. These risks and uncertainties include, but

are not limited to, our ability to convert backlog into revenue; our ability to successfully complete construction projects; the potential delay, suspension, termination or reduction in scope of a construction project; the continuing validity of the underlying assumptions and estimates of total forecasted project revenues, costs and profits and project schedules; the outcomes of pending or future litigation, arbitration or other dispute resolution proceedings; the availability of borrowed funds on terms acceptable to us; the ability to retain certain members of management; the ability to obtain surety bonds to secure our performance under certain construction contracts; possible labor disputes or work stoppages within the construction industry; changes in federal and state appropriations for infrastructure projects; possible changes or developments in worldwide or domestic political, social, economic, business, industry, market and regulatory conditions or circumstances; and actions taken or not taken by third parties including our customers, suppliers, business partners, and competitors and legislative, regulatory, judicial and other governmental authorities and officials; and other risks and uncertainties discussed under the heading **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 10, 2006. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material change in the Company's exposure to market risk from that described in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, Item 7A., since December 31, 2005.

### **Item 4. Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. The effectiveness of our disclosure controls and procedures is necessarily limited by the staff and other resources available to us and, although we have designed our disclosure controls and procedures to address the geographic diversity of our operations, this diversity inherently may limit the effectiveness of those controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In making its assessment of changes in internal control over financial reporting as of September 30, 2006, management has excluded Rudolph and Sletten, Inc. ( **Rudolph & Sletten** ), as permitted, because this company was acquired in October 2005. The assets and revenues of Rudolph & Sletten as of and for the nine months ended September 30, 2006 represent approximately 22.3% and 28.2% respectively, of our consolidated assets and revenues as of and for the nine months ended September 30, 2006. As part of our integration of Rudolph & Sletten, we are in the process of incorporating our controls and procedures into the operations of Rudolph & Sletten.

In connection with these rules, we will continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.



**Part II. - Other Information**

**Item 1. Legal Proceedings**

**Redondo/Perini Joint Venture vs. Siemens Transportation Matter**

This is a binding arbitration proceeding arising out of a contract between the Redondo/Perini Joint Venture, or RPJV, a joint venture in which Perini and Redondo Construction Corp., or Redondo, each have a 50% interest and the Siemens Transportation Partnership, S.E., Puerto Rico, or STP. STP is constructing a public metropolitan passenger rail transportation project for the Commonwealth of Puerto Rico and RPJV is responsible for the design and construction of a portion of the project.

On March 19, 2002, Redondo filed a petition for reorganization under Chapter 11 in U.S. Bankruptcy Court for the District of Puerto Rico. On December 23, 2002, RPJV filed an arbitration demand against STP seeking the recovery of additional costs related to design changes and the late completion of the design. On January 31, 2003, STP filed a counter-demand against RPJV seeking the recovery of damages allegedly related to defects in design and construction and the late completion of RPJV's work along with the repayment for alleged advances previously paid to RPJV.

On October 7, 2004, STP filed suit against Perini in New York State court seeking enforcement against Perini of a Guaranty Agreement that allegedly guarantees the performance and payment obligations of the subject RPJV/Siemens Contract in an amount to be determined at trial, but not less than \$27 million. This action has been stayed pending the arbitration.

On March 14, 2006, the arbitration panel issued a final award on Phase I of the arbitration, awarding RPJV approximately \$16.2 million on its claim and awarding STP approximately \$0.5 million on its claim, for a net award to RPJV of approximately \$15.7 million, payable in thirty days. The arbitrators also deferred decision on an additional amount of approximately \$15.5 million of RPJV's Phase I claims until the conclusion of Phase II. Subsequently, STP filed a Motion to Stay Enforcement of the Phase I arbitration award, together with a petition for an order to vacate, annul and set aside the award. The motion was denied and the arbitration award was confirmed. As a result, a judgment has been entered, as of September 29, 2006, in favor of RPJV and against STP in the sum of approximately \$16.0 million, including prejudgment interest from April 13, 2006 through September 29, 2006, totaling approximately \$0.3 million. Interest accrues on the judgment from September 29, 2006 at 9% per annum. STP has filed an appeal of the judgment.

There will be a second phase of the arbitration, which will include claims which existed on or after September 29, 2003. The parties exchanged statements of claim on July 24, 2006. RPJV's claim is \$23,183,341, plus interest. STP's claim is \$17,500,000. Discovery has started, but no hearings have been held. Hearings are scheduled to start in March 2007.

Management has made an estimate of the anticipated total cost recovery on this project and it is included in revenue recorded to date. To the extent new facts become known or the final cost recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

**Investigation by U.S. Attorney for Eastern District of New York**

In 2001, the Company received a grand jury subpoena for documents in connection with an investigation by the U.S. Attorney's Office for the Eastern District of New York. The Company's understanding is that the investigation concerns contracting with disadvantaged, minority, and women-owned businesses in the New York City area construction industry. The Company has cooperated with the U. S. Attorney's Office in the

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investigation and produced documents pursuant to the subpoena in 2001 and 2002. In August 2006, the Company received two additional grand jury subpoenas for documents in connection with the same investigation. The Company subsequently produced documents pursuant to those subpoenas, and continues to cooperate in the investigation. To date, the Company has not been named a subject or a target of the

**Part II. - Other Information** (continued)

investigation. In discussions with the U.S. Attorney's Office to resolve the investigation, the Company has indicated that it would be amenable to some form of civil settlement. It is the Company's understanding that lawyers for two individual Perini Civil employees also are in discussions with the U.S. Attorney's Office related to the investigation. The Company is unable to evaluate the potential impact, if any, of the investigation at this time.

**Item 1A. Risk Factors**

Information regarding risk factors affecting the Company's business are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes from those risk factors during 2006.

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

(a) None

(b) Not applicable

(c) Not applicable

**Item 3. Defaults Upon Senior Securities**

(a) None

(b) None

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

(a) None

(b) Not applicable

(c) Not applicable

(d) Not applicable

Item 5. Other Information

(a) None

(b) None

Item 6. Exhibits

Exhibit 31.1      Certification of Principal Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002    filed herewith.

Exhibit 31.2      Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002    filed herewith.

Exhibit 32.1      Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002    filed herewith.

Exhibit 32.2      Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002    filed herewith.

**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.

**Perini Corporation**

Registrant

Date: November 3, 2006

/s/Michael E. Ciskey

Michael E. Ciskey, Vice President and Chief Financial Officer  
Duly Authorized Officer and Principal Accounting Officer