NORWOOD FINANCIAL CORP
Form 10-Q
August 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 0-28366

Norwood Financial Corp.
(Exact name of Registrant as specified in its charter)

Pennsylvania	23-2828306
(State or other jurisdiction of Incorporation or organization)	(I.R.S. employer identification no.)
717 Main Street, Honesdale, Pennsylvania	18431
(Address of principal executive offices)	(Zip Code)

(570) 253-1455
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer o Accelerated filer x

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

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

Class	Outstanding as of August 1, 2012
Common stock, par value $0.10 per share	3,277,607

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NORWOOD FINANCIAL CORP.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2012

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NORWOOD FINANCIAL CORP.
Consolidated Balance Sheets (unaudited)
(dollars in thousands, except share and per share data)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 9,135	$ 8,974
Interest bearing deposits with banks	15,261	12,449
Cash and cash equivalents	24,396	21,423
Securities available for sale, at fair value	144,720	150,263
Securities held to maturity, fair value 2012: $177, 2011: $177	172	171
Loans receivable (net of unearned income)	479,421	457,907
Less: Allowance for loan losses	5,775	5,458
Net loans receivable	473,646	452,449
Investment in Federal Home Loan Bank Stock, at cost	3,243	3,593
Bank premises and equipment, net	7,371	7,479
Bank owned life insurance	12,119	11,887
Accrued interest receivable	2,416	2,468
Foreclosed real estate owned	1,268	2,910
Goodwill	9,715	9,715
Other intangibles	720	800
Other assets	5,081	5,656
TOTAL ASSETS	$ 684,867	$ 668,814
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 82,525	$ 71,959
Interest-bearing	451,632	453,808
Total deposits	534,157	525,767
Short-term borrowings	27,192	21,794
Other borrowings	27,579	27,670
Accrued interest payable	1,335	1,321
Other liabilities	4,363	4,201
TOTAL LIABILITIES	594,626	580,753
STOCKHOLDERS’ EQUITY		
Common stock, $.10 par value per share, authorized 10,000,000; shares issued 2012: 3,371,849 shares, 2011: 3,371,866 shares	337	337
Surplus	24,696	24,660
Retained earnings	64,788	62,308
Treasury stock at cost: 2012: 94,242 shares, 2011: 87,370 shares	(2,739)	(2,559)
Accumulated other comprehensive income	3,159	3,315
TOTAL STOCKHOLDERS’ EQUITY	90,241	88,061

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 684,867	$ 668,814

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Income (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
INTEREST INCOME				
Loans receivable, including fees	$6,431	$5,468	$12,804	$10,396
Securities	1,007	1,135	2,033	2,225
Other	7	16	11	24
Total interest income	7,445	6,619	14,848	12,645
INTEREST EXPENSE				
Deposits	942	932	1,903	1,817
Short-term borrowings	13	27	24	51
Other borrowings	243	342	487	678
Total interest expense	1,198	1,301	2,414	2,546
NET INTEREST INCOME	6,247	5,318	12,434	10,099
PROVISION FOR LOAN LOSSES	400	430	750	650
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,847	4,888	11,684	9,449
OTHER INCOME				
Service charges and fees	559	592	1,113	1,141
Income from fiduciary activities	80	105	178	218
Net realized gains on sales of securities	285	12	687	224
Gains on sale of loans and servicing rights	66	98	60	241
Other	216	186	459	377
Total other income	1,206	993	2,497	2,201
OTHER EXPENSES				
Salaries and employee benefits	2,047	1,832	4,198	3,533
Occupancy, furniture & equipment	490	408	977	806
Data processing related	216	187	448	402
Taxes, other than income	149	143	301	272
Professional fees	217	126	426	281
Merger related expenses	-	488	18	755
Federal Deposit Insurance Corporation insurance assessment	97	95	196	215
Foreclosed real estate owned expense	85	17	207	36
Other	656	640	1,333	1,170
Total other expenses	3,957	3,936	8,104	7,470
INCOME BEFORE INCOME TAXES	3,096	1,945	6,077	4,180
INCOME TAX EXPENSE	838	461	1,633	1,036
NET INCOME	$2,258	$1,484	$4,444	$3,144
BASIC EARNINGS PER SHARE	$.69	$.50	$1.35	$1.10

DILUTED EARNINGS PER SHARE	$.69	$.50	$1.35	$1.10

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP
Consolidated Statement of Comprehensive Income (unaudited)
(dollars in thousands)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Net income	$2,258	$1,484
Other Comprehensive income:		
Investment securities available for sale:		
Unrealized holding gains	291	1,161
Tax effect	(100)	(395)
Reclassification of gains recognized in net income	(285)	(12)
Tax effect	97	4
Net of tax amount	3	4
Comprehensive Income	$2,261	$2,242

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$4,444	$3,144
Other Comprehensive income:		
Investment securities available for sale:		
Unrealized holding gains	445	1,627
Tax effect	(148)	(553)
Reclassification of gains recognized in net income	(687)	(224)
Tax effect	234	76
Net of tax amount	(156)	926
Comprehensive Income	$4,288	$4,070

See accompanying notes to unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Changes in Stockholders' Equity (unaudited)
Six Months Ended June 30, 2012
(dollars in thousands, except share and per share data)

	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Retained Earnings	Shares	Amount	Income	Total
Balance December 31, 2011	3,371,866	$ 337	$ 24,660	$ 62,308	87,370	$ (2,559)	$ 3,315	$ 88,061
Net Income				4,444				4,444
Other comprehensive income							(156)	(156)
Cash dividends declared $.60 per share				(1,964)				(1,964)
Acquisition of treasury stock					11,647	(320)		(320)
Compensation expense related to stock options			66					66
Stock options exercised			(41)		(4,775)	140		99
Tax benefit on stock options			11					11
North Penn exchange adjustment	(17)							
Balance, June 30, 2012	3,371,849	$ 337	$ 24,696	$ 64,788	94,242	$ (2,739)	$ 3,159	$ 90,241

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Six Months Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$4,444	$3,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	750	650
Depreciation	280	226
Amortization of intangible assets	80	27
Deferred income taxes	(259)	(8)
Net amortization of securities premiums and discounts	580	345
Net realized gain on sales of securities	(687)	(224)
Net increase in value of life insurance	(263)	(180)
Loss on sale of foreclosed real estate	27	-
Net gain on sale of mortgage loans	(74)	(241)
Mortgage loans originated for sale	(2,269)	(6,530)
Proceeds from sale of mortgage loans originated for sale	2,343	6,771
Compensation expense related to stock options	66	82
Decrease (increase) in accrued interest receivable and other assets	985	(182)
(Decrease) increase in accrued interest payable and other liabilities	(1,441)	841
Net cash provided by operating activities	4,562	4,721
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	18,349	10,344
Proceeds from maturities and principal reductions on mortgage-backed securities	17,259	15,918
Purchases	(28,582)	(18,769)
Redemption of FHLB stock	350	328
Net (increase) decrease in loans	(22,883)	8,527
Purchase of bank premises and equipment	(172)	(63)
Proceeds from sale of bank premises and equipment and foreclosed real estate	2,569	-
Acquisition, net of cash acquired	-	4,544
Net cash (used in) provided by investing activities	(13,110)	20,829
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	8,390	8,990
Net increase (decrease) in short-term borrowings	5,398	(1,128)
Repayments of other borrowings	(91)	(3,015)
Stock options exercised	99	-
Tax benefit of stock options exercised	11	-
Acquisition of treasury stock	(320)	(207)
Cash dividends paid	(1,966)	(1,604)
Net cash provided by financing activities	11,521	3,036
Increase (decrease) in cash and cash equivalents	2,973	28,586
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,423	16,625

CASH AND CASH EQUIVALENTS, END OF PERIOD	$24,396	$45,211

See accompanying notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(dollars in thousands)

	Six Months ENded June 30,	
	2012	2011
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors and borrowers	$2,398	$2,610
Income taxes paid, net of refunds	$1,559	$1,407
Supplemental Schedule of Noncash Investing Activities		
Investment purchases	$1,619	-
Transfers of loans to foreclosed real estate and repossession of other assets	$954	$1,036

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., Norwood Settlement Services, LLC, and WTRO Properties. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the financial position and results of operations of the Company. The operating results for the six month period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or any other future interim period.

These statements should be read in conjunction with the consolidated financial statements and related notes which are incorporated by reference in the Company's Annual Report on Form 10-K for the year-ended December 31, 2011.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share:

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Basic EPS weighted average shares outstanding	3,276	2,937	3,280	2,852
Dilutive effect of stock options	4	2	3	3
Diluted EPS weighted average shares outstanding	3,280	2,939	3,283	2,855

Stock options which had no intrinsic value, because their effect would be anti-dilutive and therefore would not be included in the diluted EPS calculation were 98,275 and 165,150 as of June 30, 2012 and 2011, respectively, based upon the closing price of Norwood common stock of $28.50 and $26.15 per share on June 30, 2012 and 2011, respectively.

3. Stock-Based Compensation

As of June 30, 2012, there was $65,000 of total unrecognized compensation cost related to non-vested options granted in 2011 under the plan, which will be fully amortized by December 31, 2012.

A summary of stock options from all plans, adjusted for stock dividends declared, is shown below.

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2012	209,914	$ 28.43	6.3 Yrs.	$ 113
Granted	-	-	-	-
Exercised	(4,775)	20.72	.8 Yrs.	31
Forfeited	(12,225)	29.65	5.2 Yrs.	-
Outstanding at June 30, 2012	192,914	28.54	5.9 Yrs.	170
Exercisable at June 30, 2012	164,914	28.72	5.3 Yrs.	142

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The stock price was $28.50 as of June 30, 2012 and $27.47 as of December 31, 2011.

4. Off-Balance Sheet Financial Instruments and Guarantees

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	June 30,	
	2012	2011
Unfunded availability under loan commitments	$50,754	$43,395
Unfunded commitments under lines of credit	37,462	28,910
Standby letters of credit	11,248	5,586
	$99,464	$77,891

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of June 30, 2012 for guarantees under standby letters of credit issued is not material.

5. Securities

The amortized cost and fair value of securities were as follows:

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available for Sale:				
U.S. Government agencies	$ 2,000	$ 7	$ (2)	$ 2,005
States and political subdivisions	54,163	2,648	(42)	56,769
Corporate obligations	8,635	215	(5)	8,845
Mortgage-backed securities-government sponsored entities	74,944	1,970	(25)	76,889
	139,742	4,840	(74)	144,508
Equity securities-financial services	189	23	-	212
	$ 139,931	$ 4,863	$ (74)	$ 144,720

Held to Maturity:

D. Michael Steuert	N/A (10)	$ 300,000	$ 600,000	$ 1,200,000					
	2/9/2006					12,475 (4)			$ 1,050,520 (5)
	2/9/2006						15,400	$ 84.21	$ 396,088 (8)
	N/A (9)	$ 245,500	$ 491,000	$ 982,000					
Lawrence N. Fisher	N/A (10)	$ 225,000	$ 450,000	$ 900,000					
	2/9/2006					9,390 (4)			$ 790,732 (5)
	2/9/2006						11,550	$ 84.21	$ 297,066 (8)
	N/A (9)	$ 202,150	$ 404,300	$ 808,600					
H. Steven Gilbert	N/A (10)	$ 157,500	$ 315,000	$ 630,000					
	2/9/2006					5,705 (4)			$ 480,418 (5)
	2/9/2006						5,200	$ 84.21	$ 133,744 (8)
	N/A (9)	$ 141,650	$ 283,300	$ 566,600					
Jeffery L. Faulk	N/A (10)	$ 105,000	$ 210,000	$ 420,000					
	2/9/2006					3,915 (4)			$ 329,682 (5)
	2/9/2006						3,465	$ 84.21	$ 89,120 (8)
	N/A (9)	$ 144,900	$ 289,800	$ 579,600					

(1) The amounts in column (j) represent the number of nonqualified stock options granted on February 9, 2006 as part of the 2006 long term incentive award.

(2) The amounts in column (k) represent the exercise price of the nonqualified stock options, which was the fair market value on the date of grant, calculated by taking the average of the high and low trading values of the company s common stock on the New York Stock Exchange on the date of grant. The closing trade value on the company s common stock on the New York Stock Exchange on the date of grant was $84.00.

(3) Mr. Boeckmann s 2006-2008 VDI award is payable 50% in cash and 50% in restricted stock. He is the only named executive officer with this arrangement. Columns (c), (d) and (e) show the potential value of the cash portion of the payout for Mr. Boeckmann under the 2006-2008 VDI program, and columns (f), (g) and (h) show the potential value of the restricted stock portion of his payout under the VDI progam, if the threshold (50% of target), target and maximum (200% of target) performance goals are satisfied. Mr. Boeckmann s 2007-2009 VDI award, granted in March 2007, will be payable 100% in cash. All potential payouts are performance-driven and therefore completely at risk. The performance goals are described in the Compensation Discussion and Analysis on page 23.

(4) This amount represents the number of restricted shares granted on February 9, 2006 as part of the 2006 long term incentive award.

(5) This amount represents the fair value of the restricted shares granted on February 9, 2006 as part of the 2006 long term incentive award. The value is computed in accordance with FAS 123(R), using the grant price of $84.21 per share.

(6) This amount represents the number of restricted shares granted on February 9, 2006 as part of Mr. Boeckmann s payment for his 2005-2007 VDI award, which was paid 50% in cash and 50% in restricted stock.

(7) This amount represents the fair value of the restricted shares granted on February 9, 2006 as part of Mr. Boeckmann s payment for his 2005-2007 VDI award, which was paid 50% in cash and 50% in restricted stock. The value is computed in accordance with FAS 123(R), using the grant price of $84.21 per share.

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(8) This amount represents the fair value of the nonqualified stock options granted on February 9, 2006 as part of the 2006 long term incentive award. The value is computed in accordance with FAS 123(R), using a Black-Scholes option pricing model value of $25.72 per option.

(9) Columns (c), (d) and (e) show the potential value of the payout for each named executive officer of his 2006 annual incentive award if the threshold (50% of target), target and maximum (200% of target) performance goals are satisfied. Annual incentive awards were paid as follows and are reported in column (g) of the Summary Compensation Table on page 27: Mr. Boeckmann, $1,485,000; Mr. Steuert, $702,200; Mr. Fisher, $440,700; Mr. Gilbert, $374,000; and Mr. Faulk, $440,500. The performance goals are described in the Compensation Discussion and Analysis on pages 21-22.

(10) Columns (c), (d) and (e) show the potential value of the payout for the named executive officer under the 2006-2008 VDI program if the threshold (50% of target), target and maximum (200% of target) performance goals are satisfied. All potential payouts are performance-driven and therefore completely at risk. The performance goals are described in the Compensation Discussion and Analysis on page 23. As reflected in the narrative preceding the Summary Compensation Table, no awards were paid for 2006.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table provides information on the holdings of stock options and restricted stock by the named executive officers at December 31, 2006.

(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**
	Option Awards				**Stock Awards**		
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**(1)	**Option Expiration Date**(2)	**Number of Shares or Units of Stock That Have Not Vested (#)**(3)	**Market Value of Shares or Units of Stock That Have Not Vested ($)**(4)	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**(5)
Alan L. Boeckmann	60,000		$ 29.60	2/5/2009	185,854 (6)	$ 15,174,979	$ 1,325,250
		68,020	$ 84.21	2/5/2016			
D. Michael Steuert		15,400	$ 84.21	2/5/2016	51,858 (7)	$ 4,234,206	
Lawrence N. Fisher		11,550	$ 84.21	2/5/2016	42,620 (8)	$ 3,479,923	
H. Steven Gilbert		5,200	$ 84.21	2/5/2016	25,293 (9)	$ 2,065,173	
Jeffery L. Faulk		3,465	$ 84.21	2/5/2016	17,423 (10)	$ 1,422,588	

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(1) The exercise price of the nonqualified stock options is the fair market value of the company s common stock on the date of grant, calculated by taking the average of the high and low price of the company s common stock on the New York Stock Exchange on the date of grant.

(2) Options granted prior to 2006 had a vesting schedule of 25% per year over four years and a seven-year term. All options granted in 2006 have a vesting schedule of 20% per year over five years and a ten-year term. The first vesting date for all options grants is on the fifth of February in the year following grant and then subsequently vests at a rate of 20% per year on each anniversary of that date. Beginning with the 2002 grant, stock options vest on the fifth of February to align all vestings from multiple prior years.

(3) All restricted stock granted in 2006 has a vesting schedule of 20% per year over five years. The first vesting date for all grants is on the fifth of February in the year following grant and then subsequently vests at a rate of 20% per year on each anniversary of that date. Beginning with the 2002 grant, restricted stock vests on the fifth of February to align all vestings from multiple prior years. Previous grants of restricted stock had multiple vesting schedules as follows: vesting 25% over four years; cliff-vesting after ten years (career shares) and/or cliff-vesting

upon retirement.

(4) The market value is determined by multiplying the number of shares by the closing trading price of the company s common stock on the New York Stock Exchange on December 29, 2006 ($81.65), the last trading day of the fiscal year.

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(5) This is the potential payout value for the portion of Mr. Boeckmann s 2006-2008 VDI award payable in stock. The number of shares granted will be determined at the conclusion of the performance period and will be based on the closing price of the company s common stock on the New York Stock Exchange on the date the Organization and Compensation Committee confirms the company s performance. The grant will vest 50% per year over a two-year period. The potential payout value in column (h) represents the upper target award, based on an estimated performance rating through 2006, which represents 50% of the performance period. The actual payout could be higher or lower depending on company performance in 2007.

(6) Restricted stock vests for Mr. Boeckmann on the following dates: 59,182 shares on February 5, 2007; 1,107 shares on September 10, 2007; 61,553 shares on February 5, 2008; 639 shares on September 10, 2008; 11,447 shares on February 5, 2009; 5,385 shares on February 5, 2010; 5,385 shares on February 5, 2011; 10,620 shares on February 4, 2013, 11,400 shares on February 5, 2014; and 19,136 shares on February 5, 2015.

(7) Restricted stock vests for Mr. Steuert on the following dates: 10,155 shares on February 5, 2007; 20,000 shares on February 5, 2008; 4,650 shares on February 5, 2009; 2,495 shares on February 5, 2010; 2,495 shares on February 5, 2011; 1,880 shares on February 4, 2013; 3,600 shares on February 5, 2014; and 6,583 shares on February 5, 2015.

(8) Restricted stock vests for Mr. Fisher on the following dates: 7,924 shares on February 5, 2007; 919 shares on September 10, 2007; 14,994 shares on February 5, 2008; 538 shares on September 10, 2008; 3,494 shares on February 5, 2009; 1,878 shares on February 5, 2010; 1,878 shares on February 5, 2011; 1,620 shares on February 4, 2013; 2,750 shares on February 5, 2014; 4,941 shares on February 5, 2015; and 1,684 shares upon retirement.

(9) Restricted stock vests for Mr. Gilbert on the following dates: 4,986 shares on February 5, 2007; 507 shares on September 10, 2007; 9,011 shares on February 5, 2008; 365 shares on September 10, 2008; 2,111 shares on February 5, 2009; 1,141 shares on February 5, 2010; 1,141 shares on February 5, 2011; 1,120 shares on February 4, 2013; 1,650 shares on February 5, 2014; 2,965 shares on February 5, 2015; and 296 shares upon retirement.

(10) Restricted stock vests for Mr. Faulk on the following dates: 3,880 shares on February 5, 2007; 212 shares on September 10, 2007; 6,030 shares on February 5, 2008; 108 shares on September 10, 2008; 1,430 shares on February 5, 2009; 783 shares on February 5, 2010; 783 shares on February 5, 2011; 1,120 shares on February 4, 2013; 1,100 shares on February 5, 2014; and 1,977 shares on February 5, 2015.

OPTION EXERCISES AND STOCK VESTED

(a) **Name**	**(b) Option Awards Number of Shares Acquired on Exercise (#)**	**(c) Value Realized on Exercise ($)**	**(d) Stock Awards Number of Shares Acquired on Vesting (#)**(1)	**(e) Value Realized on Vesting ($)**
Alan L. Boeckmann	114,400	$ 5,489,933	57,016	$ 4,990,949
D. Michael Steuert	6,250	$ 339,198	9,745	$ 854,442
Lawrence N. Fisher	5,500	$ 299,585	9,192	$ 799,196
H. Steven Gilbert	3,750	$ 197,577	5,731	$ 499,177
Jeffery L. Faulk	3,750	$ 197,200	4,662	$ 407,121

(1) A portion of the shares in column (d) are withheld or sold on behalf of the named executive officer at vesting to satisfy tax withholding obligations.

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PENSION BENEFITS

The company provides a pension plan, which is a cash balance qualified defined benefit plan, to most salaried employees, including all named executive officers. Participants accounts are credited at each month-end based on age, years of service and eligible pay. On the first day of each calendar year, age at the participant s last birthday and the whole number of the participant s years of service are calculated, and then used throughout the year in determining monthly contributions. Eligible pay is defined as base pay plus before-tax contributions to the 401(k) Plan and the company s flexible benefits plan, but excluding commissions, bonuses, overtime and other irregular, infrequent or non-recurring payments. The calculation utilizing age, service and eligible pay to determine the monthly amount credited to a participant s pension plan account is illustrated below.

$$\left\{ \frac{[\text{Age} + \text{Service} - 25]}{15}\% + 2\% \right\} \text{ X } \text{Eligible Pay} = \text{Annual Pension Benefit Credit}$$

Eligible pay for pension plan purposes is also limited by the Internal Revenue Service compensation limits ($220,000 for 2006). The company credited to each named executive officer s nonqualifed deferred compensation account the amount that would have been credited to their pension plan account if their pay had not exceeded this limit.

No amounts were credited to the pension plan accounts of any of the named executive officers until after the pension plan became effective on January 1, 1999.

The normal form of payment from the pension plan is a 50% Joint & Survivor Annuity for married participants and a Single Life Annuity for unmarried participants. A lump sum payment option is also available. Payments are permitted upon retirement at normal retirement age (65), or upon early retirement as defined in the chart below.

Age	**Years of Accumulated Service Immediately Preceding Retirement**
60 - 64	5
59	8
58	11
57	13
56	14
55	15
Any Age	30

In addition to the pension plan, a select group of officers are participants in a Supplemental Benefit Plan. The Supplemental Benefit Plan provides a pre-retirement death benefit through a split dollar life insurance policy and then upon retirement provides a choice of a post-retirement death benefit, a lump sum cash payment or salary continuation payments for 120 months. In addition, any time prior to retirement, the participant has the option of irrevocably opting out of the Supplemental Benefit Plan and instead receiving a benefit under a joint and survivor split dollar life insurance plan. This benefit is provided to only four currently employed officers, three of whom are named executive officers.

(a) **Name**	**(b)** **Plan Name**	**(c)** **Number of Years Credited Service (#)**	**(d)** **Present Value of Accumulated Benefit ($)**(1)
Alan L. Boeckmann	Pension Plan	30	$ 83,791
	Supplemental Benefit Plan	30	$ 1,150,179
D. Michael Steuert	Pension Plan	4	$ 37,016
	Supplemental Benefit Plan	4	$ 385,214
Lawrence N. Fisher	Pension Plan	31	$ 97,339
	Supplemental Benefit Plan	31	$ 687,508
H. Steven Gilbert	Pension Plan	35	$ 87,463
Jeffery L. Faulk	Pension Plan	32	$ 76,237

(1) The amounts in column (d) represent the present value of accumulated benefits for the fiscal year ended December 31, 2006. The actuarial values were calculated using a discount rate of 6.00%, a future annual interest credit rate of 3.25%, assumed benefit commencement age of 65, and a lump sum form of payment for the pension plan and 120 guaranteed monthly payments for the Supplemental Benefit Plan.

NONQUALIFIED DEFERRED COMPENSATION

All U.S. executives, including named executive officers, are eligible to defer compensation into the Fluor Executive Deferred Compensation Program (EDCP), which has a number of components. Executives may defer up to 100% of base salary, annual incentive awards and any VDI payments. The plan also allows executives to contribute to the Excess 401(k) portion of the plan (between 1% and 20% of base salary) once the Internal Revenue Service maximum annual before-tax contribution for qualified retirement plans has been met.

In addition, the company contributes to the EDCP any amounts that would have been contributed by the company to the 401(k) plan as matching or discretionary retirement contributions or credited to the pension plan as an accrual, that are in excess of the Internal Revenue Service compensation limit on contributions or were lessened by an election to defer base salary. In 2006, the company matched the first 5% of salary deferred to the 401(k) or Excess 401(k) and made a discretionary contribution of 2% of base salary. Most salaried employees were eligible for the 5% match and most received the 2% discretionary retirement contribution in 2006. Annual enrollment for the EDCP is in December, and elections are made with respect to compensation earned in the following year.

The table below shows the deemed investment choices available in the EDCP and their annual rate of return for the calendar year ended December 31, 2006, as reported by the administrator of the EDCP. The company does not guarantee the rates of return.

Fund	Rate of Return	Fund	Rate of Return
Fidelity Spartan Money Market	4.79 %	Mutual Shares Class C	17.18 %
Morgan Stanley Instl Core Plus Fixed Income	4.08 %	Hartford Capital Appreciation Class A	15.66 %
American Funds Balanced Class A	11.81 %	Vanguard Small-Cap Index Investor Shares	15.66 %
Janus Balanced	10.56 %	MFS New Discovery A Shares	12.82 %
DWS Equity 500 Index Investment Class	15.58 %	American Funds EuroPacific Growth Class A	21.87 %
MFS Capital Opportunities A Shares	14.42 %	Vanguard International Growth Investor Shares	25.66 %
American Funds Growth Fund of America Class A	10.94 %	American Funds New Perspective Class A	19.87 %

Distribution elections are made in conjunction with the plan year deferral elections. Distributions can be elected as a lump sum payment or in up to ten annual installments. Executives can elect to have their distributions commence either in the year of their retirement or termination or the January following their retirement or termination. For officers of the company, no distributions will be made prior to six months after retirement or termination. In addition, executives can elect to receive a scheduled in-service distribution as a lump sum or in up to ten annual installments, with the payments commencing no sooner than one year following the end of the plan year.

(a) Name	(b) Executive Contributions in Last FY ($)(1)	(c) Registrant Contributions in Last FY ($)(2)	(d) Aggregate Earnings in Last FY ($)(3)	(e) Aggregate Balance at Last FYE ($)(4)
Alan L. Boeckmann	$ 61,161	$ 112,680	$ 445,593	$ 5,539,781
D. Michael Steuert	$ 29,872	$ 58,231	$ 223,788	$ 2,079,101
Lawrence N. Fisher	$ 422,247	$ 45,312	$ 211,310	$ 2,143,242
H. Steven Gilbert	$ 14,414	$ 26,549	$ 232,658	$ 2,287,807
Jeffery L. Faulk	$ 17,406	$ 30,626	$ 154,737	$ 1,652,935

(1) Amounts in column (b) represent contributions by each named executive officer in 2006. Contributions were made as follows to the Excess 401(k) portion of the plan and are reported in the Summary Compensation Table on page 27 in column (c): Mr. Boeckmann, $61,161; Mr. Steuert, $29,872; Mr. Fisher, $16,895; Mr. Gilbert, $14,414; and Mr. Faulk, $17,406. The amount for Mr. Fisher also includes $405,352 which was reported in the Bonus column of the Summary Compensation Table for 2005 in last year s proxy statement.

(2) Amounts in column (c) represent contributions by the company in 2006 for the named executive officers and include matching and discretionary contributions into the Excess 401(k) portion of the plan and credits that relect the accrual that would have been made in the named executive officer s pension plan account for the portion of base salary that was in excess of the Internal Revenue Service compensation limit on contributions. All amounts in column (c) are reported in column (i) of the Summary Compensation Table on page 27 and in column (b) of the All Other Compensation Table on page 29.

(3) The amounts in column (d) represent 2006 deemed investment earnings on vested deferred compensation balance. None of these earnings are reflected in the Summary Compensation Table because the company does not provide above market or guaranteed returns on nonqualified deferred compensation.

(4) The amounts in column (e) represent the balance as of December 31, 2006. These amounts are fully vested for each named executive officer.

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COMPENSATION UNDER VARIOUS TERMINATION SCENARIOS

The tables below reflect the amount of compensation that would become payable to each of the named executive officers under existing plans and arrangements if the named executive officer s employment had terminated on December 31, 2006, given their compensation and service levels as of such date and, if applicable, based on the company s closing stock price on that date. These benefits are in addition to benefits available prior to the occurrence of any termination of employment, including then-exercisable stock options and vested amounts contributed or credited under the Executive Deferred Compensation Program, as well as benefits generally available to all salaried employees, such as amounts accrued and vested through the company s retirement plans and payout of any accrued time off with pay (collectively, the Pre-Termination Benefits). Named executive officers are entitled to receive the Pre-Termination Benefits regardless of the manner in which their employment is terminated. Additional amounts may be received upon termination under the scenarios set forth below.

The actual amounts that would be paid upon a named executive officer s termination of employment can only be determined at the time of such executive s separation from the company. Due to the number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any actual amounts paid or distributed may be higher or lower than reported below. Factors that could affect these amounts include the timing during the year of any such event, the company s stock price and the executive s age. In addition, in connection with any actual termination of employment, the company may determine to enter into an agreement or to establish an arrangement providing additional benefits or amounts, or altering the terms of benefits described below, as the Committee determines appropriate.

Payments Made Upon Voluntary Termination/Early Retirement

Currently, all named executive officers, with the exception of Mr. Steuert, are eligible for early retirement as defined in the Pension Benefits Table on page 33. For those who are eligible for early retirement, it is assumed that in the case of voluntary termination, they would elect early retirement from the company. Mr. Steuert would receive no additional compensation upon voluntary termination, other than his Pre-Termination Benefits, because he is not currently eligible for early retirement.

In the event of the voluntary termination of a named executive officer who is eligible for early retirement, in addition to the Pre-Termination Benefits:

- upon Committee approval, restrictions will lapse on unvested restricted shares and the vesting of unvested options will be accelerated; and

- upon Committee approval, amounts accrued and vested through the company s Supplemental Benefit Plan will be paid in accordance with the named executive officer s distribution election.

Payments Made Upon Not for Cause Termination

In the event of the termination without cause of a named executive officer, in addition to the Pre-Termination Benefits and items identified above under the heading Payments Made Upon Voluntary Termination/Early Retirement, the named executive officer will receive a cash severance benefit calculated as two weeks of base pay per year of service, with a minimum severance benefit of eight weeks and a maximum severance benefit of fifty-two weeks. In addition, the named executive officer may receive only upon Committee approval:

- any annual incentive award earned during the fiscal year; and

- the VDI payment that would have been due based on continued employment through the year of termination.

In addition, Mr. Steuert is eligible, upon Committee approval, to receive amounts accrued and vested through the company s Supplemental Benefit Plan, which will be paid in accordance with his distribution election.

Payments Made Upon a Termination in Connection with a Change in Control

In the event of the termination of employment within 24 months of a change in control of a named executive officer, in addition to the Pre-Termination Benefits and the items identified above under the heading Payments Made Upon Voluntary Termination/ Early Retirement :

- all restrictions will lapse on unvested restricted shares, the vesting of all unvested stock options will be accelerated, and any remaining unvested VDI payments will be paid; and
- upon Committee approval, the named executive officer may receive all or a portion of the short term incentive award earned during the fiscal year.

In addition, any benefits under a Supplemental Benefit Plan will vest upon a decision from the Committee that the named executive officer had experienced an adverse employment condition within 36 months of the change in control and will be paid in accordance with the named executive officer s distribution election.

The following tables show the potential payments that would be due each named executive officer upon a voluntary termination, a termination without cause and a termination in connection with a change in control.

Alan L. Boeckmann

Eligible for early retirement	**Voluntary Termination of Employment/Early Retirement**(1)			**Not for Cause Termination of Employment**(1)			**Termination of Employment in Connection with a Change in Control**(2)		
Cash Severance Benefit	$	0	(3)	$	1,100,000	(4)	$	0	(5)
Annual Incentive Awards	$	0	(6)	$	1,100,000	(7)	$	1,100,000	(8)
Supplemental Benefit Plan	$	1,150,179	(9)	$	1,150,179	(9)	$	1,150,179	(10)
Long Term Incentive Awards									
Stock Options(11)	$	0		$	0		$	0	
Restricted Shares	$	15,174,979	(12)	$	15,174,979	(12)	$	15,174,979	(13)
Value Driver Incentive (VDI)	$	0	(14)	$	1,271,375	(15)	$	2,911,125	(16)
Total Value of Payments	**$**	**16,325,158**		**$**	**19,796,533**		**$**	**20,336,283**	

D. Michael Steuert

Not eligible for early retirement	**Voluntary Termination of Employment**(1)			**Not for Cause Termination of Employment**(1)			**Termination of Employment in Connection with a Change in Control**(2)		
Cash Severance Benefit	$	0	(3)	$	836,285	(17)	$	701,400	(18)
Annual Incentive Awards	$	0	(6)	$	491,000	(7)	$	491,000	(8)
Supplemental Benefit Plan	$	0	(19)	$	385,214	(9)	$	385,214	(10)
Long Term Incentive Awards									
Stock Options(11)	$	0		$	0		$	0	
Restricted Shares	$	0	(20)	$	0	(20)	$	4,234,206	(13)
Value Driver Incentive (VDI)	$	0	(14)	$	1,044,000	(15)	$	2,265,000	(16)
Total Value of Payments	**$**	**0**		**$**	**2,756,499**		**$**	**8,076,820**	

Lawrence N. Fisher

Eligible for early retirement	**Voluntary Termination of Employment/Early Retirement**(1)			**Not for Cause Termination of Employment**(1)			**Termination of Employment in Connection with a Change in Control**(2)		
Cash Severance Benefit	$	0	(3)	$	577,500	(4)	$	0	(5)
Annual Incentive Awards	$	0	(6)	$	404,300	(7)	$	404,300	(8)
Supplemental Benefit Plan	$	687,508	(9)	$	687,508	(9)	$	687,508	(10)
Long Term Incentive Awards									
Stock Options(11)	$	0		$	0		$	0	
Restricted Shares	$	3,479,923	(12)	$	3,479,923	(12)	$	3,479,923	(13)
Value Driver Incentive (VDI)	$	0	(14)	$	783,025	(15)	$	1,698,775	(16)
Total Value of Payments	**$**	**4,167,431**		**$**	**5,932,256**		**$**	**6,270,506**	

H. Steven Gilbert

Eligible for early retirement	**Voluntary Termination of Employment/Early Retirement**(1)			**Not for Cause Termination of Employment**(1)			**Termination of Employment in Connection with a Change in Control**(2)		
Cash Severance Benefit	$	0	(3)	$	435,800	(4)	$	0	(5)
Annual Incentive Awards	$	0	(6)	$	283,300	(7)	$	283,300	(8)
Supplemental Benefit Plan	$	0		$	0		$	0	
Long Term Incentive Awards									
Stock Options(11)	$	0		$	0		$	0	
Restricted Shares	$	2,065,173	(12)	$	2,065,173	(12)	$	2,065,173	(13)
Value Driver Incentive (VDI)	$	0	(14)	$	469,825	(15)	$	1,064,275	(16)
Total Value of Payments	**$**	**2,065,173**		**$**	**3,254,098**		**$**	**3,412,748**	

Jeffery L. Faulk

Eligible for early retirement	**Voluntary Termination of Employment/Early Retirement**(1)			**Not for Cause Termination of Employment**(1)			**Termination of Employment in Connection with a Change in Control**(2)		
Cash Severance Benefit	$	0	(3)	$	483,000	(4)	$	0	(5)
Annual Incentive Awards	$	0	(6)	$	289,800	(7)	$	289,800	(8)
Supplemental Benefit Plan	$	0		$	0		$	0	
Long Term Incentive Awards									
Stock Options(11)	$	0		$	0		$	0	
Restricted Shares	$	1,422,588	(12)	$	1,422,588	(12)	$	1,422,588	(13)
Value Driver Incentive (VDI)	$	0	(14)	$	313,200	(15)	$	709,500	(16)
Total Value of Payments	**$**	**1,422,588**		**$**	**2,508,588**		**$**	**2,421,888**	

(1) The amounts in these columns were calculated assuming a termination date of December 31, 2006 and that the named executive officer will elect early retirement, if eligible.

(2) The amounts in these columns were calculated assuming a change in control date of December 31, 2006 and that termination of the named executive officer is as a result of the change in control and is within two years of the change in control.

(3) Severance is not paid in the event of voluntary termination or in the event of a voluntary early retirement.

(4) The named executive officer is provided a cash severance benefit of two weeks of base pay per year of service upon a termination without cause. The minimum severance benefit is eight weeks and the maximum is 52 weeks of pay. The severance benefit is paid in a lump sum on termination.

(5) The company does not provide a cash severance benefit in the event of a change in control.

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(6) The named executive officer forfeits any portion of the award earned in the year of termination.

(7) Based on the timing of the termination within the fiscal year and on review by the Committee, the named executive officer may receive no payment, a payment in the amount of the annual incentive target, or an amount based on company performance applied to the target. This amount represents the 2006 annual incentive target and assumes Committee approval.

(8) The Committee may provide that either immediately upon a change in control, or upon termination of employment within 24 months following a change in control, the named executive officer will receive a payment equal to the target payment for the current year under the 2003 Executive Performance Incentive Plan. This amount represents the 2006 annual incentive target and assumes Committee approval.

(9) As of age 65, and with the approval of the Committee, the named executive officer can elect to have the supplemental benefit plan paid out in a lump sum or as an annuity. This amount represents the present value of the policy if taken as a lump sum at age 65. The death benefit of the policy for each participant is as follows: Mr. Boeckmann, $5,000,000; Mr. Steuert, $2,000,000; Mr. Fisher; $1,500,000.

(10) The named executive officer is assumed to have elected to have the supplemental benefit plan paid out in a lump sum. This amount represents the present value of the benefit taken as a lump sum at age 65. The death benefit of the policy for each participant is as follows: Mr. Boeckmann, $5,000,000; Mr. Steuert, $2,000,000; Mr. Fisher; $1,500,000. This amount assumes the Plan Administrator, after the change in control, determines that the named executive officer terminated due to an adverse change in employment condition within thirty-six months of the change in control.

(11) As of December 31, 2006, none of the named executive officers had any outstanding unvested in-the-money stock options.

(12) Upon early retirement and Committee approval, restrictions will lapse on unvested shares pursuant to the terms of the 2003 Executive Performance Incentive Plan. This amount represents the value of unvested shares on December 31, 2006 based on the closing trading value of the company s common stock on December 31, 2006 ($81.65). This amount assumes Committee approval.

(13) The Committee may provide that either immediately upon a change in control, or upon termination of employment within 24 months following a change in control, restrictions lapse on unvested shares pursuant to the terms of the 2003 Executive Performance Incentive Plan. This amount represents the value of unvested shares on December 31, 2006 based on the closing trading value of the company s common stock on December 31, 2006 ($81.65). This amount assumes Committee approval.

(14) The named executive officer forfeits any portion of the award that is unvested, even if the performance period has concluded.

(15) Upon Committee approval, any payment that would be due based on continued employment through the year of termination may vest and be paid. This amount represents payment due for service through December 31, 2006 and paid in March 2007. This amount assumes Committee approval.

(16) The remaining, unvested Value Driver Incentive is paid out at the greater of target, or the Committee-approved rating for company performance prior to change in control. This amount represents target of

unvested VDI payments as of December 31, 2006.

(17) The named executive officer is provided a cash severance benefit of two weeks of base pay per year of service. The minimum severance benefit is eight weeks and the maximum is 52 weeks of pay. Severance is paid in a lump sum on termination. This amount includes an additional one year s pay, as guaranteed in Mr. Steuert s employment letter.

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(18) This amount represents one year s pay, as guaranteed in Mr. Steuert s employment letter.

(19) The supplemental benefit plan is cancelled as of the termination date of Mr. Steuert s employment because he is not eligible for early retirement.

(20) Pursuant to the terms of the 2003 Executive Performance Incentive Plan, the named executive officer forfeits any unvested shares, because Mr. Steuert is not eligible for early retirement.

DIRECTOR COMPENSATION

The company s compensation philosophy for non-employee directors is consistent with the philosophy established for the company s named executive officers. The compensation program is designed to attract and retain directors with the necessary experience to represent the company s shareholders and to advise the company s executive management. It is also important that the compensation program aligns the Board of Directors with the interests of long-term shareholders. The company uses a combination of cash and stock-based awards to compensate directors and targets the 50th percentile of compensation survey data from the companies included in the Compensation Peer Group as well as similar industry segments and general industry.

Cash Compensation Paid to Board Members

For 2006, members of the Board who were not employees of the company received an annual cash retainer of $50,000. In addition, the Chairs of the Organization and Compensation Committee and Governance Committee received an annual cash retainer in the amount of $5,000, the Chair of the Audit Committee received an annual cash retainer in the amount of $10,000, and the lead independent director received an annual cash retainer in the amount of $30,000. Directors also receive a fee of $2,000 per day for each day upon which one or more Board or Board Committee meetings are attended. Directors who are employees of the company receive no compensation for their service as directors.

Stock-Based Compensation Paid to Board Members

When a non-employee director joins the Board, the individual receives an initial grant of up to 2,500 shares of restricted stock plus related restricted units in an amount determined by the Organization and Compensation Committee. The most recent grant, made in 2005, was 1,500 restricted shares and 1,000 restricted units. Restricted units are payable in cash to assist in satisfying related income tax liabilities. Awards are made after appointment to the Board, on a date determined by the Committee. Restrictions lapse and units become immediately earned and payable with respect to 20% of the award on the date of grant and then subsequently vests at a rate of 20% per year on each anniversary of that date.

An annual grant of restricted stock and restricted units with a total market value (based on the fair market value of the company s common stock on the New York Stock Exchange on the date of grant) of $75,000 is made as of the date of the annual meeting of shareholders to each non-employee director. Restrictions on these annual awards lapse at a rate of 20% per year over five years. If a director leaves the Board, the portion of any award remaining subject to restrictions is forfeited. Restrictions immediately lapse, however, if a director attains the age for mandatory retirement (currently 72 years of age), obtains approval for early retirement, dies, becomes permanently and totally disabled or is terminated due to a change in control.

Deferred Compensation Program for Non-Employee Directors

Directors have the option of deferring receipt of directors fees until their retirement or other termination of status as a director, pursuant to the Fluor Corporation Deferred Directors Fees Program. Directors may elect to have deferred amounts valued as if invested either wholly or partially in company stock or one or more of 14 investment funds. The company does not guarantee the rate of return. Directors electing the company stock valuation for deferrals and maintaining that election continuously for five years earn a 25% premium on the deferred amount deemed invested in company stock via the Fluor Stock Valuation Fund. All of the directors who deferred fees in 2006, elected the Fluor Stock Valuation Fund for at least half of their deferral. All distributions from the deferral accounts are paid in cash.

Former Retirement Plan

In March 2003, a committee of disinterested directors determined that non-employee directors who received restricted shares on March 11, 1997 in consideration of the cancellation of the Fluor Corporation Retirement Plan for Outside Directors could make an irrevocable election to surrender such shares upon their retirement, death or disability. The five directors, who were eligible at the time, made such an election. In lieu of these shares, these directors will receive the amount of their respective accrued retirement benefits at the time of the cancellation of the retirement plan upon their retirement, death or disability. These benefits equal the retainer fees at the time of cancellation multiplied by the number of years such director had served prior to the cancellation of the plan. This amount will be paid in a lump sum (reduced to present value based on the 10-year Treasury rate) at retirement. Two of the five directors who made the irrevocable election in 2003 have since retired, have surrendered their shares and have been cashed out.

DIRECTOR SUMMARY COMPENSATION TABLE

(a) **Name**	**(b)** **Fees Earned or Paid in Cash** **($)**(1)	**(c)** **Stock Awards** **($)**(2)	**(d)** **All Other Compensation** **($)**(3)	**(e)** **Total** **($)**(4)
Peter J. Fluor	$ 121,000	$ 83,058	$ 56,000	$ 260,058
James T. Hackett	$ 80,000	$ 75,570	$ 44,750	$ 200,320
Kent Kresa	$ 84,000	$ 77,636	$ 50,750	$ 212,386
Vilma S. Martinez	$ 80,000	$ 83,619	$ 24,750	$ 188,369
Dean R. O Hare	$ 94,000	$ 82,671	$ 45,375	$ 222,046
Joseph W. Prueher	$ 80,000	$ 69,032	$ 46,250	$ 195,282
Lord Robin W. Renwick	$ 85,000	$ 88,754	$ 94,148	$ 267,902
Peter S. Watson	$ 80,000	$ 70,856	$ 24,750	$ 175,606
Suzanne H. Woolsey	$ 84,000	$ 70,157	$ 24,750	$ 178,907

(1) The amounts in column (b) represent fees paid for board retainers, committee retainers, board meetings, teleconferences, committee meetings and strategic review meetings.

(2) The amounts in column (c) represent the dollar amount recognized for financial statement reporting purposes for fiscal year ended December 31, 2006, in accordance with FAS 123(R) of restricted stock awards, regardless of when the award was granted, and include amounts from awards granted in and prior to 2006. The fair value of these awards is based on the fair market value on the date of grant, calculated by taking the average of the high and low trading values of the company s common stock on the New York Stock Exchange on the date of grant. The 2006 stock grant was based on a fair market value of $94.48, with an overall value of $75,111, of which $44,878 was granted in restricted stock and $30,233 was granted in restricted units.

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(3) The amounts in column (d) may include the following and vary by each director: consulting fees, charitable gift match, company paid premiums on Director s life insurance and company contributed premiums on deferred compensation invested into the Fluor Stock Valuation Fund. All Other Compensation is detailed in a separate table below.

(4) The amounts in column (e) represent the total of columns (b) through (d).

DIRECTOR ALL OTHER COMPENSATION

(a) Name	(b) Consulting Fees ($)	(c) Charitable Gift Match ($)(1)	(d) Directors Life Insurance Premiums ($)(2)	(e) Company Contributions to Nonqualified Deferred Compensation ($)(3)	(f) Total ($)(4)
Peter J. Fluor	$ 0	$ 1,000	$ 24,750	$ 30,250	$ 56,000
James T. Hackett	$ 0	$ 0	$ 24,750	$ 20,000	$ 44,750
Kent Kresa	$ 0	$ 5,000	$ 24,750	$ 21,000	$ 50,750
Vilma S. Martinez	$ 0	$ 0	$ 24,750	$ 0	$ 24,750
Dean R. O Hare	$ 0	$ 5,000	$ 24,750	$ 15,625	$ 45,375
Joseph W. Prueher	$ 0	$ 5,000	$ 24,750	$ 16,500	$ 46,250
Lord Robin W. Renwick	$ 58,773 (5)	$ 0	$ 24,750	$ 10,625	$ 94,148
Peter S. Watson	$ 0	$ 0	$ 24,750	$ 0	$ 24,750
Suzanne H. Woolsey	$ 0	$ 0	$ 24,750	$ 0	$ 24,750

(1) The amounts in column (c) represent company matched donor contributions (to a maximum of $5,000 per fiscal year) made to eligible institutions.

(2) The amounts in column (d) represent the premiums paid by the company for each director for non-contributory life insurance benefits.

(3) Amounts in column (e) represent a 25% premium contribution made by the company in 2006 on deferred director s fees deemed invested in the Fluor Stock Valuation Fund.

(4) The amounts in column (f) represent the total of columns (b) through (e).

(5) This is the amount of payments made to Lord Renwick in his capacity as the Non-Executive Chairman of Fluor Limited, a wholly-owned subsidiary of the company located in the United Kingdom. For his services provided in 2006, Lord Renwick was paid £30,000, which converts to $58,773 based on the exchange rate as of December 31, 2006.

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RATIFICATION OF APPOINTMENT OF REGISTERED PUBLIC ACCOUNTING FIRM

Proposal 2

Consistent with our commitment to good corporate governance, our Audit Committee is asking shareholders to ratify its appointment of Ernst & Young LLP as our independent registered public accounting firm to audit the financial statements of the company for the fiscal year ending on December 31, 2007. In the event the shareholders fail to ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of Fluor and its shareholders.

A representative of Ernst & Young LLP is expected to be present at the meeting and available to respond to appropriate questions and, although that firm has indicated that no statement will be made, an opportunity for a statement will be provided.

Audit and Other Fees

The following table presents aggregate fees for professional audit services rendered by Ernst & Young LLP for the audit of the company s annual financial statements for fiscal years 2006 and 2005, and fees billed for other services provided by Ernst & Young LLP for fiscal years 2006 and 2005.

	Fiscal Year Ended (in millions)	
	2006	**2005**
Audit Fees	$ 6.8	$ 6.8
Audit-Related Fees(1)	1.4	0.7
Tax Fees		
All Other Fees		
Total Fees Paid	$ 8.2	$ 7.5

(1) Includes pension plans, accounting and reporting consultations and advisory services regarding Section 404 of the Sarbanes-Oxley Act of 2002.

Audit Committee s Pre-Approval Policy

The Audit Committee of our Board of Directors has policies and procedures for the pre-approval of all audit and non-audit services to be provided by our independent registered public accounting firm and for the prohibition of certain services from being provided by the independent registered public accounting firm. We may not engage our independent registered public accounting firm to render any audit or non-audit service unless the service is approved in advance by the Audit Committee or the engagement to render the service is entered into pursuant to the Audit Committee s pre-approval policies and procedures. On an annual basis, the Audit Committee may pre-approve services that are expected to be provided to Fluor by the independent registered public accounting firm during the fiscal year. At the time such pre-approval is granted, the Audit Committee specifies the pre-approved services and establishes a monetary limit with respect to each particular pre-approved service, which limit may not be exceeded without obtaining further pre-approval under the policy. For any pre-approval, the Audit Committee considers whether such services are consistent with the rules of the Securities and Exchange Commission on auditor independence. Management provides the Audit Committee a quarterly report listing service performed by and fees paid to the independent registered public accounting firm during the current fiscal year.

If the cost of any service exceeds the pre-approved monetary limit, such service must be approved by the Audit Committee. The Audit Committee has delegated authority to the Chair of the Audit Committee to pre-approve any audit or non-audit services to be provided to Fluor by the independent registered public accounting firm for which the cost is less than $500,000. The Chair must report any pre-approval pursuant to the delegation of authority to the Audit Committee at its next scheduled meeting.

Board Recommendation

The Board of Directors recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending December 31, 2007.

OTHER BUSINESS

The company does not intend to present any other business for action at the Annual Meeting and does not know of any other business intended to be presented by others.

ADDITIONAL INFORMATION

Householding of Proxy Materials

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as householding, potentially provides extra convenience for shareholders and cost savings for companies. The company and some brokers household proxy materials, delivering a single proxy statement to multiple shareholders sharing an address unless contrary instructions have been received from affected shareholders. Once you have received notice from your broker or us that they or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement or if you share an address with another shareholder and you would prefer to receive a single copy of the proxy statement instead of multiple copies, please notify Fluor s Investor Relations Department at (469) 398-7220, Fluor Corporation, 6700 Las Colinas Boulevard, Irving, Texas 75039 or, if your shares are held in a brokerage account, your broker. The company promptly will deliver to a shareholder who received one proxy statement as the result of householding a separate copy of the proxy statement upon the shareholder s written or oral request directed to Fluor s Investor Relations Department at (469) 398-7220, Fluor Corporation, 6700 Las Colinas Boulevard, Irving, Texas 75039.

Advance Notice Procedures

Under the company s *Amended and Restated Bylaws*, no business may be brought before an annual meeting by a shareholder unless written notice is delivered to the company s Secretary (containing certain information specified in the *Amended and Restated Bylaws* about the shareholder and the proposed action) not less than 90 nor more than 120 days prior to the first anniversary of the preceding year s annual meeting that is, with respect to the 2008 annual meeting, between January 3, 2008 and February 2, 2008. However, in the event that the 2008 annual meeting is to be held on a date that is more than 30 days before or more than 70 days after May 2, 2008 (the first anniversary of the 2007 Annual Meeting), then such notice must be received not earlier than the 120th day and not later than the 90th day prior to the date of the 2008 annual meeting or the 10th day following the day on which public announcement of the date of the 2008 annual meeting is first made by the company. These requirements are separate from the Securities and Exchange Commission s requirements that a shareholder must meet in order to have a shareholder proposal included in the company s proxy statement. Any notices should be sent to: Lawrence N. Fisher, Chief Legal Officer and Secretary, Fluor Corporation, 6700 Las Colinas Boulevard, Irving, Texas 75039. If a shareholder fails to meet these deadlines and fails to satisfy the requirements of Rule 14a-4 under the Securities Exchange Act of 1934, as amended, the company may exercise discretionary voting authority under proxies it solicits to vote on any such proposal as it determines appropriate.

Shareholder Proposals for the 2008 Annual Meeting

Shareholders interested in submitting a Rule 14a-8 proposal for inclusion in the proxy materials for the annual meeting of shareholders in 2008 may do so by following the procedures prescribed in Rule 14a-8, under the Securities Exchange Act of 1934, as amended. To be eligible for inclusion, shareholder proposals must be received by the company s Secretary no later than November 8, 2007. Any proposals should be sent to: Lawrence N. Fisher, Chief Legal Officer and Secretary, Fluor Corporation, 6700 Las Colinas Boulevard, Irving, Texas 75039.

Electronic Voting

If you own your shares of common stock of record you may authorize the voting of your shares over the Internet at *www.proxyvoting.com/flr* or telephonically by calling 1-866-540-5760 and by following the instructions on the enclosed proxy card. If you hold shares in a Fluor or Fluor subsidiary s retirement plan participant account, you may authorize the voting of your shares over the Internet at *www.proxyvoting.com/flr-plans* or telephonically by calling 1-866-540-5760 and by following the instructions on the enclosed voting instruction card. Authorizations submitted over the Internet or by telephone must be received by 10:59 p.m. Central Daylight Time on May 1, 2007, except with respect to shares held in company retirement plans which must be received by 4:59 p.m. Central Daylight Time on April 30, 2007 to be voted by the trustee.

Use of these Internet or telephonic voting procedures constitutes your authorization of Mellon Investor Services, or in the case of shares held in company retirement plans, the trustee, to deliver a proxy card on your behalf to vote at the Annual Meeting in accordance with your Internet or telephonically communicated instructions.

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm will provide a voting instruction form to you with this proxy statement, which you may use to direct how your shares will be voted. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, instructions for which would be provided by your bank or brokerage firm on your vote instruction form.

Lawrence N. Fisher
Chief Legal Officer and Secretary

March 7, 2007

Irving, Texas

Directions to the
Fluor Corporation 2007 Annual Shareholders Meeting

Wednesday, May 2, 2007, beginning at 9:00 a.m. Central Daylight Time
Hotel Crescent Court, Gallery Ballroom
400 Crescent Court
Dallas, Texas

FLUOR CORPORATION

PROXY CARD SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

OF THE COMPANY FOR THE ANNUAL MEETING TO BE HELD ON MAY 2, 2007

The undersigned, a shareholder of Fluor Corporation, a Delaware corporation, acknowledges receipt of a Notice of Annual Meeting of Shareholders, the accompanying Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2006; and, revoking any proxy previously given, hereby constitutes and appoints L.N. Fisher and D.M. Steuert, and each of them, the true and lawful agents and proxies of the undersigned with full power of substitution in each, to vote the shares of Common Stock of Fluor Corporation standing in the name of the undersigned at the Annual Meeting of Shareholders of Fluor Corporation, on Wednesday, May 2, 2007 at 9:00 a.m. Central Daylight Time, and at any adjournment or postponement thereof with respect to the proposals listed on the reverse side and upon such other matters as may be properly presented.

THIS PROXY CARD WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED BY THE UNDERSIGNED SHAREHOLDER AND IN ACCORDANCE WITH THE DISCRETION OF THE PROXIES AS TO ANY OTHER MATTERS THAT ARE PROPERLY PRESENTED. UNLESS OTHERWISE DIRECTED, THIS PROXY CARD WILL BE VOTED FOR THE ELECTION OF THE FOUR NOMINEES FOR DIRECTOR IN PROPOSAL 1 AND FOR PROPOSAL 2.

(Continued and to be signed on the other side)

Address Change/Comments (Mark the corresponding box on the reverse side)

~ FOLD AND DETACH HERE ~

FLUOR CORPORATION

2007 Annual Meeting of Shareholders

May 2, 2007

You are cordially invited to attend the 2007 Annual Meeting of Shareholders which will be

held on Wednesday, May 2, 2007, beginning at 9:00 a.m. Central Daylight Time, at:

Hotel Crescent Court, Gallery Ballroom

400 Crescent Court

Dallas, Texas

A map is included on the last page of the Proxy Statement.

ADMITTANCE TICKET

This ticket entitles you, the shareholder, and one guest to attend the 2007 Annual Meeting.

Please bring it with you. Only shareholders and their guests will be admitted.

We look forward to welcoming you on Wednesday, May 2, 2007.

THIS PROXY CARD WILL BE VOTED AS DIRECTED. UNLESS OTHERWISE DIRECTED, THIS PROXY CARD WILL BE VOTED FOR THE ELECTION OF THE FOUR NOMINEES IN PROPOSAL 1 AND FOR PROPOSAL 2.

Please Mark Here for Address Change or Comments o
SEE REVERSE SIDE

The Board of Directors recommends that you vote FOR the nominees in Proposal 1 and FOR Proposal 2.

1. Election of Class II Directors:

	FOR	AGAINST	ABSTAIN
01 James T. Hackett	o	o	o
02 Kent Kresa	o	o	o
03 Lord Robin W. Renwick	o	o	o
04 Peter S. Watson	o	o	o

2. Ratification of the appointment of Ernst & Young LLP as registered public accounting firm for 2007.

FOR	AGAINST	ABSTAIN
£	£	£

I PLAN TO ATTEND THE MEETING £

Signature **Signature** **Date: , 2007**

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. Corporations and partnerships should sign in full corporate or partnership name by an authorized officer.

→ FOLD AND DETACH HERE →

WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING,

BOTH OF WHICH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.

Internet and telephone voting is available through
10:59 p.m. Central Daylight Time May 1, 2007.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

Internet	OR	Telephone	OR	Mail
http://www.proxyvoting.com/flr-plans Use the Internet to vote your proxy. Have your proxy card in hand when you access the web		**1-866-540-5760** Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.		Mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

site.

If you vote your proxy by Internet or by telephone,

you do NOT need to mail back your proxy card.

Choose **MLinkSM** for Fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect®** at www.melloninvestor.com/isd where step-by-step instructions will prompt you through enrollment.

FLUOR CORPORATION

VOTING INSTRUCTION CARD SOLICITED ON BEHALF OF THE BOARD OF

DIRECTORS OF THE COMPANY FOR THE ANNUAL MEETING TO BE HELD ON MAY 2, 2007

The undersigned, a participant in a 401(k) or other retirement plan sponsored by Fluor Corporation or a subsidiary, such as the Fluor Corporation Salaried Employees Savings Investment Plan, (the Company Retirement Plans), acknowledges receipt of a Notice of Annual Meeting of Shareholders, the accompanying Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2006. This Voting Instruction Card constitutes your voting instructions to The Northern Trust Company which serves as trustee of the trust serving as the funding medium for the Company Retirement Plans (the Trust) to vote the shares of Common Stock of Fluor Corporation allocated to your plan account at the Annual Meeting of Shareholders of Fluor Corporation, on Wednesday, May 2, 2007 at 9:00 a.m. Central Daylight Time, and at any adjournment or postponement thereof with respect to the proposals listed on the reverse side. As a participant in and a named fiduciary (i.e. the responsible party identified in the voting section of each plan document and the Trust) under the Company Retirement Plans, you have the right to direct The Northern Trust Company, as trustee, how to vote the shares of Fluor Corporation allocated to your Plan account as well as a portion of any shares for which no timely voting instructions are received from other participants with respect to Proposal 2. If you do not sign, date and return this card, or no direction is made, the Trust provides that the trustee will vote FOR the nominees for Director in Proposal 1 and, with respect to Proposal 2, will vote the shares allocated to your plan account in the same proportion as it votes the shares for which it has received such instructions unless to do so would be inconsistent with the trustee s duties.

(Continued and to be signed on the other side)

Address Change/Comments (Mark the corresponding box on the reverse side)

~ FOLD AND DETACH HERE ~

FLUOR CORPORATION

2007 Annual Meeting of Shareholders

May 2, 2007

You are cordially invited to attend the 2007 Annual Meeting of Shareholders which will be held on Wednesday, May 2, 2007, beginning at 9:00 a.m. Central Daylight Time, at:

Hotel Crescent Court, Gallery Ballroom

400 Crescent Court

Dallas, Texas

A map is included on the last page of the Proxy Statement.

ADMITTANCE TICKET

This ticket entitles you, the shareholder, and one guest to attend the 2007 Annual Meeting.

Please bring it with you. Only shareholders and their guests will be admitted.

We look forward to welcoming you on Wednesday, May 2, 2007.

This Voting Instruction Card will be voted as directed. Unless otherwise directed, this Voting Instruction Card will be voted FOR the election of the four nominees in Proposal 1 and in the same proportion and manner as the Trustee votes the shares for which it has received voting instructions with respect to Proposal 2.

Please Mark Here o
for Address Change
or Comments

SEE REVERSE SIDE

The Board of Directors recommends that you vote FOR the nominees in Proposal 1 and FOR Proposal 2.

1. Election of Class II Directors:

	FOR	AGAINST	ABSTAIN
01 James T. Hackett	o	o	o
02 Kent Kresa	o	o	o
03 Lord Robin W. Renwick	o	o	o
04 Peter S. Watson	o	o	o

2. Ratification of the appointment of Ernst & Young LLP as registered public accounting firm for 2007.

FOR	AGAINST	ABSTAIN
£	£	£

I PLAN TO ATTEND THE MEETING £

Signature **Signature** **Date:** **, 2007**

NOTE: Please sign as name appears hereon.

→ FOLD AND DETACH HERE →

For shares held in Fluor retirement plans, voting instructions must be received by 4:59 p.m. Central Daylight Time on April 30, 2007 for the Trustee to vote your shares in accordance with your instructions.

Your Internet or telephone vote authorizes the Trustee to vote your shares in the same manner as if you marked, signed and returned your Voting Instruction Card.

Internet		**Telephone**		**Mail**
http://www.proxyvoting.com/flr Use the Internet to vote. Have your Voting Instruction Card in hand when you access the web site.	**OR**	**1-866-540-5760** Use any touch-tone telephone to vote your proxy. Have your Voting Instruction Card in hand when you call.	**OR**	Mark, sign and date your Voting Instruction Card and return it in the enclosed postage-paid envelope.

If you vote your proxy by Internet or by telephone,

you do NOT need to mail back your voting instruction card.

Choose **MLinkSM** for Fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect®** at www.melloninvestor.com/isd where step-by-step instructions will prompt you through enrollment.