

PERINI CORP  
Form 10-K  
March 07, 2007

**FORM 10-K**

United States Securities and Exchange Commission  
Washington, DC 20549

Commission File No. 1-6314

*(Mark One)*

Annual Report Pursuant to Section 13 or 15(d) of the Securities Act of 1934.

For the fiscal year ended December 31, 2006

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

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

***Perini Corporation***

*(Exact name of registrant as specified in its charter)*

**Massachusetts**

*(State of Incorporation)*

**04-1717070**

*(IRS Employer Identification No.)*

**73 Mt. Wayte Avenue, Framingham, Massachusetts**

*(Address of principal executive offices)*

**01701**

*(Zip Code)*

**(508) 628-2000**

*(Registrant's telephone number, including area code)*

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

**Title of Each Class**

Common Stock, \$1.00 par value

**Name of each exchange on which registered**

The New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 aggregate market value of voting Common Stock held by nonaffiliates of the registrant was \$458,491,500 as of June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of Common Stock, \$1.00 par value per share, outstanding at February 23, 2007 was 26,647,246.

### **Documents Incorporated by Reference**

Portions of the definitive proxy statement relating to the registrant's annual meeting of stockholders to be held on May 17, 2007 are incorporated by reference into Part III of this report.

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**PERINI CORPORATION  
INDEX TO ANNUAL REPORT  
ON FORM 10-K**

**PART I**

Item 1:	Business
Item 1A:	Risk Factors
Item 1B:	Unresolved Staff Comments
Item 2:	Properties
Item 3:	Legal Proceedings
Item 4:	Submission of Matters to a Vote of Security Holders

**PART II**

Item 5:	Market for the Registrant's Common Equity and Related Stockholder Matters
Item 6:	Selected Financial Data
Item 7:	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk
Item 8:	Financial Statements and Supplementary Data
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Reporting
Item 9A:	Controls and Procedures
Item 9B:	Other Information

**PART III**

Item 10:	Directors, Executive Officers and Corporate Governance
Item 11:	Executive Compensation
Item 12:	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Item 13:	Certain Relationships and Related Transactions, and Director Independence
Item 14:	Principal Accountant Fees and Services

**PART IV**

Item 15: Exhibits and Financial Statement Schedules

Signatures

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**PART I.**

**Forward-looking Statements**

The statements contained in this Annual Report on Form 10-K 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 management's 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 international 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. Also see Item 1A. Risk Factors on pages 12 through 18. 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 1. BUSINESS**

**General**

Perini Corporation and its subsidiaries (or Perini, we, us, and our, unless the context indicates otherwise) is a leading construction services company, based on revenues, as ranked by Engineering News-Record, or ENR, 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 by executing large, complex projects on time and within budget while adhering to strict quality control measures. We offer general contracting, preconstruction planning and comprehensive project management services, including the planning and scheduling of the manpower, equipment, materials and subcontractors required for a project. We also offer self-performed construction services including site work, concrete forming and placement and steel erection. During 2006, we performed work on approximately 250 construction projects for over 130 federal, state and local government agencies or authorities and private customers. Our headquarters are in Framingham, Massachusetts, and we have twelve other principal offices throughout the United States. Our common stock is listed on the New York Stock Exchange under the symbol PCR .

Our business is conducted through three primary segments: building, civil, and management services. Our building segment, comprised of Perini Building Company, James A. Cummings, Inc., or Cummings, and Rudolph and Sletten, Inc., focuses on large, complex projects in the hospitality and gaming, sports and entertainment, educational, transportation, healthcare, biotech, pharmaceutical and high-tech markets. Our civil segment is comprised of Perini Civil Construction and Cherry Hill Construction, Inc., or Cherry Hill, and focuses on public works construction primarily in the northeastern and mid-Atlantic United States, including the repair, replacement and reconstruction of the public 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 surety companies and multi-national corporations in the United States and overseas.

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## **Business Segment Overview**

### *Building Segment*

Our building segment has significant experience providing services to a number of high growth, specialized building markets, including the hospitality and gaming, sports and entertainment, educational, transportation, healthcare, biotech, pharmaceutical and high-tech markets. We believe our success within the building segment results from our proven ability to manage and perform large, complex projects with aggressive fast-track schedules, elaborate designs and advanced mechanical, electrical and life safety systems while providing accurate budgeting and strict quality control. Although price is a key competitive factor, we believe our strong reputation, long-standing customer relationships and significant level of repeat and referral business have enabled us to achieve our leading position.

We believe the hospitality and gaming market provides significant opportunities for growth. We are a recognized leader in this market, specializing in the construction of high-end destination resorts and casinos and Native American developments. We work with hotel operators, Native American tribal councils, developers and architectural firms to provide diversified construction services to meet the challenges of new construction and renovation of hotel and resort properties. We believe that our reputation for completing projects on time is a significant competitive advantage in this market, as any delay in project completion may result in significant loss of revenues for the customer. In its 2006 rankings based on revenue, ENR ranked us as the nation's 19<sup>th</sup> largest contractor in the general building market, the largest builder in the hotel, motel and convention center market and the 20<sup>th</sup> largest builder in both the entertainment and multi-unit residential markets.

As a result of our reputation and track record, we have been awarded and are currently working on contracts for several marquee projects in the hospitality and gaming market, including Project CityCenter in Las Vegas for MGM MIRAGE, the Trump International Hotel and Tower in Las Vegas, The Cosmopolitan Resort and Casino in Las Vegas, the Foxwoods Resort Casino expansion in Connecticut and the Gaylord National Resort and Convention Center in the Washington, DC area. We also have completed work on several other marquee projects in the hospitality and gaming market, including Paris Las Vegas, Mohegan Sun in Connecticut, the Morongo Casino Resort and Spa and the Pechanga Resort and Casino, both in California, the Seminole Hard Rock Hotels and Casinos in Florida, and the Red Rock Casino Resort Spa and the Augustus Tower at Caesars Palace, both in Las Vegas. In other end markets, we have constructed large, complex projects such as the Airport Parking Garage and Rental Car Facility in Ft. Lauderdale, FL; the Florida International University Health and Life Sciences Building in Miami, FL; the Glendale Arena in Glendale, AZ; the Stanford University Cancer Center in Stanford, CA; the Johnson & Johnson Pharmaceutical R&D Expansion in La Jolla, CA; and the Kaiser Hospital and Medical Office Building in Santa Clara, CA.

In January 2003, the acquisition of Cummings expanded our presence in the southeastern region of the United States. Cummings specializes in the construction of schools, municipal buildings and commercial developments. In October 2005, we acquired Rudolph and Sletten, an established building contractor and construction management company based in Redwood City, California, to expand our presence on the west coast of the United States. Rudolph and Sletten specializes in the construction of corporate campuses and healthcare, biotech, pharmaceutical and high-tech projects.

### *Civil Segment*

Our civil segment specializes in public works construction and the repair, replacement and reconstruction of infrastructure, primarily in the northeastern and mid-Atlantic United States. Our civil contracting services include construction and rehabilitation of highways, bridges, mass transit systems and wastewater treatment facilities. Our customers primarily award contracts through one of two methods: the traditional public competitive bid method, in which price is the major determining factor, or through a request for proposals where contracts are awarded based on a combination of technical capability and price. Traditionally, our customers require each contractor to pre-qualify for construction business by meeting criteria that include technical capabilities and financial strength. We believe that our financial strength and outstanding record of performance on challenging civil works projects enables us to pre-qualify for projects in situations where smaller, less diversified contractors are unable to meet the qualification requirements. We believe this is a competitive advantage that makes us an attractive partner on the largest infrastructure projects and prestigious DBOM (design-build-operate-maintain) contracts, which combine the nation's top contractors with engineering firms, equipment manufacturers and project development consultants in a competitive bid selection process to execute highly sophisticated public works projects.

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We have been active in civil construction since 1894 and believe we have developed a particular expertise in large, complex civil construction projects. ENR's 2006 rankings based on revenue place us as the 1<sup>st</sup> largest builder in the United States in the mass transit and rail

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market and the 23<sup>rd</sup> largest builder in the bridge construction market. We have completed or are currently working on some of the most significant civil construction projects in the northeastern United States, including multiple portions of the Boston's Big Dig project; New Jersey Light Rail Transit; rehabilitations of the Triborough, Williamsburg and Whitestone bridges in New York City; Jamaica Station transportation center in New York; and sections of both the Brooklyn-Queens Expressway and the Long Island Expressway.

In January 2005, we acquired Cherry Hill to expand our presence in the mid-Atlantic and southeastern regions of the United States. Cherry Hill specializes in excavation, foundations, paving and construction of civil infrastructure.

### *Management Services Segment*

Our management services segment provides diversified construction, design-build and maintenance services to the U.S. military and government agencies as well as surety companies and multi-national corporations in the United States and overseas. We believe customers choose our services based on our ability to plan and execute rapid response assignments and multi-year contracts through our diversified construction and design-build abilities. In addition, we believe we have demonstrated consistently superior performance on competitively bid or negotiated multi-year, multi-trade, task order and ID/IQ (Indefinite Delivery/Indefinite Quantity) construction programs. We have been chosen by the federal government for significant projects related to defense and reconstruction projects in Iraq and Afghanistan. For example, we are currently working on overhead protection projects throughout Iraq. In addition, we completed work on the design and construction of four military bases in Afghanistan for the Afghan National Army.

We believe we are well positioned to capture additional management services projects that involve long-term contracts and provide a recurring source of revenues as the level of government expenditures for defense and homeland security has increased in response to the global threat of terrorism. For example, we have completed all work on a multi-year contract with the U.S. Department of State, Office of Overseas Buildings Operations, to perform design-build security upgrades at 27 U.S. embassies and consulates throughout the world. In addition, our proven abilities with federal government projects have enabled us to win contracts from private defense contractors who are executing projects for the federal government. For example, we have completed design and construction contracts with Raytheon Integrated Defense Systems for upgrades to radar facilities at Beale Air Force Base in California, the Cobra Dane Facility on Shemya Island, Alaska, and at a Royal Air Force facility in Fylingdales, England to meet the requirements of a new early warning radar system.

We also provide diversified management services to surety companies and multi-national corporations. We are under agreement with a major North American surety company to provide rapid response, contract completion services. Upon notification from the surety of a contractor bond default, we provide management or general contracting services to fulfill the contractual and financial obligations of the surety.

### **Markets and Customers**

Information on lines of business and foreign business is included under the following captions of this Annual Report on Form 10-K for the year ended December 31, 2006.

#### **Caption**

Selected Consolidated Financial Information  
Management's Discussion and Analysis of Financial Condition and Results of Operations  
Note 11 of Notes to Consolidated Financial Statements entitled "Business Segments"

While the Selected Consolidated Financial Information presents certain business segment information for purposes of consistency of presentation for the five years ended December 31, 2006, additional business segment information required by Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, for the three years ended December 31, 2006 is included in Note 11 of Notes to Consolidated Financial Statements.

4

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Our construction services are targeted toward end markets that are diversified across project types, client characteristics and geographic locations. Revenues by business segment for each of the three years in the period ended December 31, 2006 are set forth below:

**Revenues by Segment  
Year Ended December 31,**

Markets and Customers

6

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	2006	2005	2004
	(in thousands)		
Building	\$2,515,051	\$ 1,181,103	\$ 1,298,771
Civil	281,137	275,584	138,095
Management Services	246,651	276,790	405,449
Total	\$3,042,839	\$ 1,733,477	\$ 1,842,315

Revenues by end market for the building segment for each of the three years in the period ended December 31, 2006 are set forth below:

Building Segment Revenues by End Market			
	2006	2005	2004
	(in thousands)		
Hospitality and Gaming	\$1,100,720	\$ 748,333	\$ 1,042,671
Sports and Entertainment	13,916	5,035	10,753
Education Facilities	163,145	107,444	111,296
Transportation Facilities	14,747	9,171	34,801
Healthcare Facilities	500,387	118,335	25,206
Condominiums	423,554	82,028	5,274
Other	298,582	110,757	68,770
Total	\$2,515,051	\$ 1,181,103	\$ 1,298,771

Revenues by end market for the civil segment for each of the three years in the period ended December 31, 2006 are set forth below:

Civil Segment Revenues by End Market			
	2006	2005	2004
	(in thousands)		
Highways	\$ 97,555	\$ 69,464	\$ 17,394
Bridges	78,603	53,102	39,868
Mass Transit	29,363	57,247	46,509
Sitework	40,794	53,321	-
Wastewater Treatment and Other	34,822	42,450	34,324
Total	\$ 281,137	\$ 275,584	\$ 138,095

Revenues by end market for the management services segment for each of the three years in the period ended December 31, 2006 are set forth below:

Management Services Segment Revenues by End Market			
	2006	2005	2004
	(in thousands)		
U.S. Government Services	\$ 155,468	\$ 188,147	\$ 329,095
Power Facilities Maintenance	73,308	69,320	59,945
Other	17,875	19,323	16,409
Total	\$ 246,651	\$ 276,790	\$ 405,449

We provide our services to a broad range of private and public customers. The allocation of our revenues by client source for each of the three years in the period ended December 31, 2006 are set forth below:

	<b>Revenues by Client Source</b>		
	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Private Owners	82%	69%	67%
State and Local Governments	13	19	15
Federal Governmental Agencies	5	12	18
	100%	100%	100%

*Private Owners.* We derived approximately 82% of our revenues from private customers during 2006. Our private customers include major hospitality and gaming resort owners, Native American sovereign nations, public corporations, private developers and healthcare companies. We provide services to our private customers primarily through negotiated contract arrangements, as opposed to competitive bids.

*State and Local Governments.* We derived approximately 13% of our revenues from state and local government customers during 2006. Our state and local government customers include state transportation departments, state and local correctional departments, metropolitan authorities, cities, municipal agencies, school districts and public universities. We provide services to our state and local customers primarily pursuant to contracts awarded through competitive bidding processes. Our civil contracting services are concentrated in the northeastern and mid-Atlantic United States. Our building construction services for state and local government customers, which have included schools and dormitories, correctional and healthcare facilities, parking structures and municipal buildings, are in locations throughout the country. Since our acquisition of Cummings in January 2003, we have been active in providing construction services for local government customers in Florida.

*Federal Governmental Agencies.* We derived approximately 5% of our revenues from federal governmental agencies during 2006. These agencies have included the U.S. State Department, the U.S. Navy, the U.S. Army Corps of Engineers and the U.S. Air Force. We provide services to federal agencies primarily pursuant to contracts for specific or multi-year assignments that involve new construction or infrastructure improvements. A substantial portion of our revenues from federal agencies is derived from projects in overseas locations. We expect this to continue for the foreseeable future as a result of our expanding base of experience and relationships with federal agencies, together with an anticipated favorable expenditure trend for defense, security and reconstruction work.

### **Backlog**

We include a construction project in our backlog at such time as a contract is awarded or a firm letter of commitment is obtained and funding is in place. As a result, we believe the backlog figures are firm, subject only to the cancellation provisions contained in the various contracts. Historically, these provisions have not had a material adverse effect on us.

As of December 31, 2006, we had a record year-end construction backlog of \$8.451 billion compared to \$7.898 billion at December 31, 2005 and \$1.151 billion at December 31, 2004. Backlog is summarized below by business segment as of December 31, 2006 and 2005:

	<b>Backlog by Business Segment</b>			
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2006</b>		<b>2005</b>	
	(dollars in thousands)			
Building	\$ 7,832,357	93%	\$ 7,180,369	91%
Civil	429,685	5	422,988	5
Management Services	189,339	2	294,427	4
Total	\$ 8,451,381	100%	\$ 7,897,784	100%



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We estimate that approximately \$4.9 billion, or 58%, of our backlog at December 31, 2006 will not be completed in 2007.

Backlog by end market for the building segment as of December 31, 2006 and 2005 is set forth below:

<b>Building Segment Backlog by End Market</b>				
	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>(dollars in thousands)</b>			
Hospitality and Gaming	\$ 4,729,949	61%	\$ 5,577,482	78%
Sports and Entertainment	108,257	1	12,227	-
Education Facilities	373,992	5	104,646	1
Transportation Facilities	27,606		6,807	-
Healthcare Facilities	881,223	11	786,644	11
Condominiums	1,707,799	22	489,321	7
Other	3,531		203,242	3
<b>Total</b>	<b>\$ 7,832,357</b>	<b>100%</b>	<b>\$ 7,180,369</b>	<b>100%</b>

Backlog by end market for the civil segment as of December 31, 2006 and 2005 is set forth below:

<b>Civil Segment Backlog by End Market</b>				
	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>(dollars in thousands)</b>			
Highways	\$ 180,229	42%	\$ 193,162	46%
Bridges	176,469	42	106,956	25
Mass Transit	6,023	1	32,891	8
Sitework	6,167	1	37,666	9
Wastewater Treatment and Other	60,797	14	52,313	12
<b>Total</b>	<b>\$ 429,685</b>	<b>100%</b>	<b>\$ 422,988</b>	<b>100%</b>

Backlog by end market for the management services segment as of December 31, 2006 and 2005 is set forth below:

<b>Management Services Segment Backlog by End Market</b>				
	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>(dollars in thousands)</b>			
U.S. Government Services	\$ 177,853	94%	\$ 213,228	72%
Power Facilities Maintenance	-	-	72,856	25
Other	11,486	6	8,343	3
<b>Total</b>	<b>\$ 189,339</b>	<b>100%</b>	<b>\$ 294,427</b>	<b>100%</b>

## **Competition**

The construction industry is highly competitive and the markets in which we compete include numerous competitors, some of which have greater financial and other resources than we do. In certain end markets of the building segment, such as hospitality and gaming, we are one of the largest providers of construction services in the United States, but within other end markets of the building segment, and within the civil and management services segments, there are competitors with significantly greater capabilities and resources. In our building segment, we compete with a variety of national and regional contractors. In the west, our primary competitors are Marnell-Carrao, Huntcor and McCarthy. In the northeast, our primary competitors are Suffolk, Gilbane and Turner and in the southeast our primary competitors include Centex-Rooney, James B. Pirtle and Whiting-Turner. In our management services segment, we compete principally with national engineering and construction firms such as Fluor, Washington Group International and Kellogg Brown & Root. In our civil segment, we compete principally with large civil construction firms that operate in the northeast, including Slattery/Skanska, Granite Construction/Halmar, Tully and Schiavone. We believe price, experience, reputation, responsiveness, customer relationships, project completion track record and quality of work are key factors in customers awarding contracts across our end markets.

## **Types of Contracts and The Contract Process**

### *Type of Contracts*

The general contracting and management services we provide consist of planning and scheduling the manpower, equipment, materials and subcontractors required for the timely completion of a project in accordance with the terms, plans and specifications contained in a construction contract. We provide these services by entering into traditional general contracting arrangements, such as fixed price, guaranteed maximum price and cost plus award fee contracts and, to a lesser extent, construction management or design-build contracting arrangements. These contract types and the risks generally inherent therein are discussed below:

- Guaranteed maximum price (GMP) contracts provide for a cost plus fee arrangement up to a maximum agreed upon price. These contracts place risks on the contractor for amounts in excess of the GMP, but may permit an opportunity for greater profits than under Cost Plus contracts through sharing agreements with the owner on any cost savings that may be realized. Services provided by our building segment to various private customers often are performed under GMP contracts.
- Cost plus fee (Cost Plus) contracts provide for reimbursement of the costs required to complete a project plus a stipulated fee arrangement. Cost Plus contracts include cost plus fixed fee (CPFF) contracts and cost plus award fee (CPAF) contracts. CPFF contracts provide for reimbursement of the costs required to complete a project plus a fixed fee. CPAF contracts provide for reimbursement of the costs required to complete a project plus a base fee as well as an incentive fee based on cost and/or schedule performance. Cost Plus contracts serve to minimize the contractor's financial risk, but may also limit profits. Services provided by our management services segment to various U.S. government agencies often are performed under Cost Plus contracts.
- Fixed price (FP) contracts, which include fixed unit price contracts, are generally used in competitively bid public civil construction projects and, to a lesser degree, building construction projects and generally commit the contractor to provide all of the resources required to complete a project for a fixed sum or at fixed unit prices. Usually FP contracts transfer more risk to the contractor but offer the opportunity, under favorable circumstances, for greater profits. FP contracts represent a significant portion of our publicly bid civil construction projects.
- Construction management (CM) contracts are those under which a contractor agrees to manage a project for the owner for an agreed-upon fee, which may be fixed or may vary based upon negotiated factors. CM contracts serve to minimize the contractor's financial risk, but may also limit profit relative to the overall scope of a project.
- Design-build contracts are those under which a contractor provides both design and construction services for a customer. These contracts may be either fixed price contracts or cost plus fee contracts.

Historically, a high percentage of our contracts have been of the GMP and fixed price type. A summary of revenues and backlog by type of contract for each of the three years in the period ended December 31, 2006 follows:

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	2006	2005	2004
Cost Plus, GMP or CM	85%	75%	80%
Fixed Price	15	25	20
	100%	100%	100%

**Backlog as of  
December 31,**

	2006	2005	2004
Cost Plus, GMP or CM	92%	92%	68%
Fixed Price	8	8	32
	100%	100%	100%

*The Contract Process*

We identify potential projects from a variety of sources, including advertisements by federal, state and local governmental agencies, through the efforts of our business development personnel and through meetings with other participants in the construction industry such as architects and engineers. After determining which projects are available, we make a decision on which projects to pursue based on such factors as project size, duration, availability of personnel, current backlog, competitive advantages and disadvantages, prior experience, contracting agency or owner, source of project funding, geographic location and type of contract.

After deciding which contracts to pursue, we generally have to complete a prequalification process with the applicable agency or customer. The prequalification process generally limits bidders to those companies with the operational experience and financial capability to effectively complete the particular project(s) in accordance with the plans, specifications and construction schedule.

Our estimating process typically involves three phases. Initially, we perform a detailed review of the plans and specifications, summarize the various types of work involved and related estimated quantities, determine the project duration or schedule and highlight the unique and riskier aspects of the project. After the initial review, we decide whether or not to continue to pursue the project. If the answer is positive, we perform the second phase of the estimating process which consists of estimating the cost and availability of labor, material, equipment, subcontractors and the project team required to complete the project on time and in accordance with the plans and specifications. The final phase consists of a detailed review of the estimate by management including, among other things, assumptions regarding cost, approach, means and methods, productivity and risk. After the final review of the cost estimate, management adds an amount for profit to arrive at the total bid amount.

Public bids to various governmental agencies are generally awarded to the lowest bidder. Requests for proposals or negotiated contracts with public or private customers are generally awarded based on a combination of technical capability and price, taking into consideration factors such as project schedule and prior experience.

During the construction phase of a project, we monitor our progress by comparing actual costs incurred and quantities completed to date with budgeted amounts and the project schedule and periodically, at a minimum on a quarterly basis, prepare an updated estimate of total forecasted revenue, cost and profit for the project.

During the ordinary course of most projects, the customer, and sometimes the contractor, initiate modifications or changes to the original contract to reflect, among other things, changes in specifications or design, construction method or manner of performance, facilities, equipment, materials, site conditions and period for completion of the work. Generally the scope and price of these modifications are documented in a "change order" to the original contract and reviewed, approved and

paid in accordance with the normal change order provisions of the contract.

Often a contract requires us to perform extra or change order work as directed by the customer even if the customer has not agreed in advance on the scope or price of the work to be performed. This process may result in disputes over whether the work performed is beyond the scope of the work included in the original project plans and specifications or, if the customer agrees that the work performed qualifies as extra work, the price the customer is willing to pay for the extra work. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of such work for a lengthy period of time until the change order is approved and funded by the customer. Also, unapproved change orders, contract disputes or claims result in costs being incurred by us that cannot be billed currently and, therefore, are reflected as "Unbilled Work" in our balance sheet. See Note 1(d) of Notes to Consolidated Financial Statements. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other project work and our ability to meet specified contract milestone dates.

The process for resolving claims varies from one contract to another but, in general, we attempt to resolve claims at the project supervisory level through the normal change order process or with higher levels of management within our organization and the customer's organization. Depending upon the terms of the contract, claim resolution may involve a variety of other resolution methods, including mediation, binding or non-binding arbitration or litigation. Regardless of the process, when a potential claim arises on a project, we typically have the contractual obligation to perform the work and incur the related costs. We do not recoup the costs until the claim is resolved. It is not uncommon for the claim resolution process to last months or years, especially if it involves litigation.

Our contracts generally involve work durations in excess of one year. Revenue from our contracts in process is generally recorded under the percentage of completion contract accounting method. For a more detailed discussion of our policy in these areas, see Note 1(d) of Notes to Consolidated Financial Statements, entitled "Method of Accounting for Contracts".

### **Construction Costs**

While our business may experience some adverse consequences if shortages develop or if prices for materials, labor or equipment increase excessively, provisions in certain types of contracts often shift all or a major portion of any adverse impact to the customer. On our fixed price contracts, we attempt to insulate ourselves from the unfavorable effects of inflation by incorporating escalating wage and price assumptions, where appropriate, into our construction cost estimates and by obtaining firm fixed price quotes from major subcontractors and material suppliers at the time of the bid period. Construction and other materials used in our construction activities are generally available locally from multiple sources and have been in adequate supply during recent years. Construction work in selected overseas areas primarily employs expatriate and local labor which can usually be obtained as required.

### **Environmental Matters**

Our properties and operations are subject to federal, state and municipal laws and regulations relating to the protection of the environment, including requirements for water discharges, air emissions, the use, management and disposal of solid or hazardous materials or wastes and the cleanup of contamination. For example, we must apply water or chemicals to reduce dust on road construction projects and to contain contaminants in storm run-off water at construction sites. In certain circumstances, we may also be required to hire subcontractors to dispose of hazardous materials encountered on a project in accordance with a plan approved in advance by the owner. We believe that we are in substantial compliance with all applicable laws and regulations; however, future requirements or amendments to current laws or regulations imposing more stringent requirements could require us to incur additional costs to maintain or achieve compliance.

In addition, some environmental laws, such as the U.S. federal "Superfund" law and similar state statutes, can impose liability for the entire cost of cleanup of contaminated sites upon any of the current or former owners or operators or upon parties who sent wastes to these sites, regardless of who owned the site at the time of the release or the lawfulness of the original disposal activity. Contaminants have been detected at some of the sites that we own, or where we worked as a contractor in the past, and we have incurred costs for investigation or remediation of hazardous substances. We believe that our liability for these sites will not be material, either individually or in the aggregate, and have pollution legal liability insurance available for such matters. We believe that we have minimal exposure to environmental liability as a result of the activities of Perini

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Environmental Services, Inc., or Perini Environmental, a wholly owned subsidiary of Perini that was phased out during 1997. Perini Environmental provided hazardous waste engineering and construction services to both private clients and public agencies nationwide. Perini Environmental was responsible for compliance with applicable laws in connection with its activities; however, Perini and Perini Environmental generally carried insurance or received indemnification from customers to cover the risks associated with the remediation business.

We own real estate in seven states and, as an owner, are subject to laws governing environmental responsibility and liability based on ownership. We are not aware of any significant environmental liability associated with our ownership of real estate.

### **Insurance and Bonding**

All of our properties and equipment, both directly owned or owned through joint ventures with others, are covered by insurance and we believe that such insurance is adequate. In addition, we maintain general liability, excess liability and workers' compensation insurance in amounts that we believe are consistent with our risk of loss and industry practice. Due to tight conditions in the insurance market, since the beginning of 2002 we have been purchasing workers' compensation and general liability policies at substantially higher premiums with a self-insured deductible limit of \$250,000 per occurrence, with appropriate aggregate caps on losses retained.

As a normal part of the construction business, we are often required to provide various types of surety bonds as an additional level of security of our performance. We have surety arrangements with several sureties, one of which we have dealt with for over 80 years, and another of which formerly was a major holder of our outstanding common stock prior to selling all of its shares of our common stock in December 2005. (See Note 12 of Notes to Consolidated Financial Statements.) We also require many of our higher risk subcontractors to provide surety bonds as security for their performance. Since 2005, we also have purchased, from one of our larger sureties, a bonding insurance product on certain jobs to insure against the risk of subcontractor default as opposed to having subcontractors provide traditional payment and performance bonds.

### **Employees**

The total number of personnel employed by us is subject to seasonal fluctuations, the volume of construction in progress and the relative amount of work performed by subcontractors. During 2006, our average number of employees was approximately 5,275 with a maximum of approximately 6,475 and a minimum of approximately 4,300.

We operate primarily as a union contractor. As such, we are signatory to numerous local and regional collective bargaining agreements, both directly and through trade associations, throughout the country. These agreements cover all necessary union crafts and are subject to various renewal dates. Estimated amounts for wage escalation related to the expiration of union contracts are included in our bids on various projects and, as a result, the expiration of any union contract in the next fiscal year is not expected to have any material impact on us. As of December 31, 2006, approximately 3,000 of our total of 4,700 employees were union employees. During the past several years, we have not experienced any work stoppages caused by our union employees.

### **Available Information**

Our website address is [www.perini.com](http://www.perini.com). The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. We make available, free of charge on our Internet website, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after we have electronically filed such materials with, or furnished it to, the United States Securities and Exchange Commission. You may read and copy any document we file at the SEC Headquarters, Office of Investor Education and Assistance, 100 F Street, NE, Washington, D.C. 20549. Also available on our website are our Code of Business Conduct and Ethics, Corporate Governance Guidelines, the charters of the Committees of our Board of Directors and reports under Section 16 of the Exchange Act of transactions in our stock by our directors and executive officers.

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## **ITEM 1A. RISK FACTORS**

We are subject to a number of risks, including those summarized below. Such risks could have a material adverse effect on our financial condition, results of operations and cash flows. See our disclosure under "Forward-looking Statements" on page 2.

### **Risks Relating to Our Business:**

#### **We may not fully realize the revenue value reported in our backlog.**

As of December 31, 2006, our backlog of uncompleted construction work was approximately \$8.5 billion which represents a 7% increase from our backlog of \$7.9 billion as of December 31, 2005. We include a construction project in our backlog at such time as a contract is awarded or a firm letter of commitment is obtained and funding is in place. The revenue projected in our backlog may not be realized or, if realized, may not result in profits. For example, if a project reflected in our backlog is terminated, suspended or reduced in scope, it would result in a reduction to our backlog which would reduce, potentially to a material extent, the revenues and profits we actually received from contracts in backlog. If a customer cancels a project, we may be reimbursed for certain costs but typically have no contractual right to the total revenues reflected in our backlog. Significant cancellations or delays of projects in our backlog could have a material adverse effect on our revenues, cash flows and profits.

#### **We will require substantial personnel resources to execute and perform on our contracts in backlog.**

Our ability to execute and perform on our contracts in backlog depends in large part upon our ability to hire and retain highly skilled personnel, including engineering, project management and senior management professionals. In addition, our construction projects require a significant amount of trade labor resources, such as carpenters, masons and other skilled workers. Given the recent increase in our contract backlog, we will require even more qualified personnel to perform construction projects on time and within budget. Recent growth in the construction industry, particularly in areas with significant building activity such as Las Vegas, Nevada, has led to a corresponding increase in the demand for personnel resources and, in some cases, could result in labor shortages for certain types of personnel. Competition for these employees is intense. In the event we are unable to attract, hire and retain the requisite personnel necessary to execute and perform on our contract backlog, we may experience delays in completing projects in accordance with project schedules, which may have an adverse effect on our financial results and harm our reputation. Further, the increased demand for personnel may result in higher labor costs which could cause us to exceed the budget on a project, which in turn may have an adverse effect on our results of operations and harm our relationships with our customers. In addition, if we lack the personnel necessary to perform on our current contract backlog, we may find it necessary to curtail our pursuit of new projects.

**We are subject to significant legal proceedings, which, if determined adversely to us, could harm our reputation, preclude us from bidding on future projects and/or have a material adverse effect on us.**

We are involved in various lawsuits, including the legal proceedings described under Item 3 -- "Legal Proceedings." Litigation is inherently uncertain and it is not possible to predict what the final outcome will be of any legal proceeding. A final judgment against us would require us to record the related liability and fund the payment of the judgment and, if such adverse judgment is significant, it could have a material adverse effect on us. Legal proceedings resulting in judgments or findings against us may harm our reputation and prospects for future contract awards.

**Our contracts require us to perform extra or change order work, which can result in disputes and adversely affect our working capital, profits and cash flows.**

Our contracts generally require us to perform extra or change order work as directed by the customer even if the customer has not agreed in advance on the scope or price of the work to be performed. This process can result in disputes over whether the work performed is beyond the scope of the work included in the original project plans and specifications or, if the customer agrees that the work performed qualifies as extra work, the price the customer is willing to pay for the extra work. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of such work for a lengthy period of time until the change order is approved and funded by the customer.

12

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Also, unapproved change orders, contract disputes or claims cause us to incur costs that cannot be billed currently and therefore may be reflected as "unbilled work" in our balance sheet. See Note 1(d) of Notes to Consolidated Financial Statements. To the extent our actual recoveries with respect to unapproved change orders, contract disputes or claims are lower than our estimates, the amount of any shortfall will reduce our revenues and the amount of unbilled work recorded on our balance sheet, and could have a material adverse effect on our working capital, results of operations and cash flows. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other project work and our ability to meet specified contract milestone dates. For example, we are currently, along with our joint venture partners, pursuing a series of claims for additional contract time and compensation against the Massachusetts Highway Department for work performed and cost incurred by the joint venture on a portion of the Central Artery/Tunnel project in Boston, Massachusetts. During construction, the Massachusetts Highway Department ordered the joint venture 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, we encountered a number of unforeseen conditions during construction that greatly increased our cost of performance. See Item 3.-- "Legal Proceedings."

**Economic, political and other risks associated with our international operations involve risks not faced by our domestic competitors, which could adversely affect our revenues and earnings.**

We derived approximately 5% of our revenues for the year ended December 31, 2006 from our work on projects located outside of the United States, including projects in Iraq and Afghanistan. We expect non-U.S. projects to continue to contribute to our revenues and earnings for the foreseeable future. Our international operations expose us to risks inherent in doing business in hostile regions outside the United States, including:

- political risks, including risks of loss due to civil disturbances, guerilla activities and insurrection;
- acts of terrorism and acts of war;
- unstable economic, financial and market conditions;

- potential incompatibility with foreign joint venture partners, subcontractors and vendors;
- foreign currency controls and fluctuations;
- trade restrictions;
- variations in taxes; and
- changes in labor conditions, labor strikes and difficulties in staffing and managing international operations.

Any of these factors could harm our international operations and, consequently, our business and consolidated operating results. Specifically, failure to successfully manage international operations could result in higher operating costs than anticipated or could delay or preclude altogether our ability to generate revenues in key international markets.

**A decrease in U.S. government funding or change in government plans, particularly with respect to construction projects in Iraq and Afghanistan, as well as the risks associated with undertaking projects in these countries, could adversely affect the continuation of existing projects or the number of projects available to us in the future.**

We have performed design-build security upgrades at United States embassies and consulates throughout the world, and we are currently engaged in significant building activities in Iraq. The United States federal government has approved various spending bills for the reconstruction and defense of Iraq and Afghanistan and has allocated significant funds to the defense of United States interests around the world from the threat of terrorism. A decrease in government funding of these projects or a decision by the United States federal government to reduce or eliminate the use of outside contractors to perform this work would decrease the number of projects available to us and limit our ability to obtain new contracts in this area.

Our projects in Iraq and Afghanistan and other areas of political and economic instability carry with them specific

13

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security and operational risks. Intentional or unintentional acts in those countries could result in damage to our construction sites or harm to our employees and could result in our decision to withdraw our operations from the area. Also, as a result of these acts, the United States federal government could decide to cancel or suspend our operations in these areas.

**Increased regulation of the hospitality and gaming industry could reduce the number of future hospitality and gaming projects available, which, in turn, could adversely affect our future earnings.**

The hospitality and gaming industry is regulated extensively by federal and state regulatory bodies, including state gaming commissions, the National Indian Gaming Commission and federal and state taxing and law enforcement agencies. From time to time, legislation is proposed in the legislatures of some of these jurisdictions that, if enacted, could adversely affect the tax, regulatory, operational or other aspects of the hospitality and gaming industry. Legislation of this type may be enacted in the future. The United States federal government has also previously considered a federal tax on casino revenues and may consider such a tax in the future. In addition, companies that operate in the hospitality and gaming industry are currently subject to significant state and local taxes and fees in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase at any time. For example, a tax law enacted in Nevada in July, 2003 increased the taxes applicable to Nevada gaming operations. Similar legislation or new hospitality and gaming regulations could deter future hospitality and gaming construction projects in jurisdictions in which we derive significant revenues. As a result, the enactment of such legislation or regulations could adversely affect our future earnings.

**A decrease in government funding of infrastructure projects could reduce revenues within our civil construction business segment.**

Civil construction markets are dependent on the amount of infrastructure work funded by various governmental agencies which, in turn, depends on the condition of the existing infrastructure, the need for new or expanded infrastructure and federal, state or local government spending levels. A decrease in government funding of infrastructure projects could decrease the number of civil construction projects available and limit our ability to obtain new contracts, which could reduce revenues within our civil construction segment.

**If we are unable to accurately estimate the overall risks, revenues or costs on a contract, we may achieve a lower than anticipated profit or incur a loss on that contract.**

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We generally enter into four principal types of contracts with our clients: fixed price contracts, cost plus fee contracts, guaranteed maximum price contracts, and, to a lesser extent, construction management or design-build contracts. We derive a significant portion of our civil construction segment and management services segment revenues and backlog from fixed price contracts.

- Fixed price contracts require us to perform the contract for a fixed price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we successfully control our costs and avoid cost overruns.
- Cost plus fee contracts provide for reimbursement of the costs required to complete a project, but generally have a lower base fee and an incentive fee based on cost and/or schedule performance. If our costs exceed the revenues available under such a contract or are not allowable under the provisions of the contract, we may not receive reimbursement for these costs.
- Guaranteed maximum price contracts provide for a cost plus fee arrangement up to a maximum agreed-upon price. These contracts also place the risk on us for cost overruns that exceed the guaranteed maximum price.
- Construction management contracts are those under which we agree to manage a project for a customer for an agreed upon fee, which may be fixed or may vary based upon negotiated factors. Profitability on these types of contracts is impacted by changes in the scope of work or design issues, which could cause cost overruns beyond our control and limit profits on these contracts.

Cost overruns, whether due to inefficiency, faulty estimates or other factors, result in lower profit or a loss on a project. A significant number of our contracts are based in part on cost estimates that are subject to a number of assumptions. If our

14

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estimates of the overall risks, revenues or costs prove inaccurate or circumstances change, we may incur a lower profit or a loss on that contract.

### **The percentage-of-completion method of accounting for contract revenues may result in material adjustments, which could result in a charge against our earnings.**

We recognize contract revenues using the percentage-of-completion method. Under this method, estimated contract revenues are recognized by applying the percentage of completion of the project for the period to the total estimated revenues for the contract. Estimated contract losses are recognized in full when determined. Total contract revenues and cost estimates are reviewed and revised at a minimum on a quarterly basis as the work progresses and as change orders are approved. Adjustments based upon the percentage of completion are reflected in contract revenues in the period when these estimates are revised. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract profit, we recognize a credit or a charge against current earnings, which could be material.

### **We are subject to a number of risks as a U.S. government contractor, which could either harm our reputation, result in fines or penalties against us and/or adversely impact our financial condition.**

We are a provider of services to U.S. government agencies and therefore are exposed to risks associated with government contracting. We must observe laws and regulations relating to the formation, administration and performance of government contracts which affect how we do business with our U.S. government customers and may impose added costs on our business. For example, the Federal Acquisition Regulations and the industrial security regulations of the U.S. Department of Defense and related laws include provisions that allow our U.S. government customers to terminate or not renew our contracts if we come under foreign ownership, control or influence and require us to disclose and certify cost and pricing data in connection with contract negotiations.

Our failure to comply with these or other laws and regulations could result in contract terminations, suspension or debarment from contracting with the U.S. government, civil fines and damages and criminal prosecution and penalties, any of which could cause our actual results to differ materially from those anticipated.

U.S. government agencies generally can terminate or modify their contract with us at their convenience and some government contracts must be renewed annually. If a government agency terminates or fails to renew a contract, our backlog may be reduced. If a government agency terminates a contract due to our unsatisfactory performance, it could result in liability to us and harm our ability to compete for future contracts.

U.S. government agencies, including the Defense Contract Audit Agency, or DCAA, routinely audit and investigate U.S. government contracts and U.S. government contractors' administrative processes and systems. These agencies review our performance on contracts, pricing practices, cost structure and compliance with applicable laws, regulations and standards. They also review our compliance with regulations and policies and the adequacy of our internal control systems and policies, including our purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and any such costs



already reimbursed must be refunded. Moreover, if any of the administrative processes or systems is found not to comply with requirements, we may be subjected to increased government oversight and approval that could delay or otherwise adversely affect our ability to compete for or perform contracts. Therefore, an unfavorable outcome to an audit by the DCAA or another agency could cause our results to differ materially from those anticipated. If an investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the U.S. government. In addition, we would suffer serious reputational harm if allegations of impropriety were made against us. Each of these results could cause actual results to differ materially from those anticipated.

**Our participation in construction joint ventures exposes us to liability and/or reputational harm for failures of our partners.**

As part of our business, we enter into joint venture arrangements typically to jointly bid on and execute particular projects, thereby reducing our financial or operational risk with respect to such projects. Success on these joint projects depends

15

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in large part on whether our joint venture partners satisfy their contractual obligations. We and our joint venture partners are generally jointly and severally liable for all liabilities and obligations of our joint ventures. If a joint venture partner fails to perform or is financially unable to bear its portion of required capital contributions or other obligations, including liabilities stemming from lawsuits, we could be required to make additional investments, provide additional services or pay more than our proportionate share of a liability to make up for our partner's shortfall. For example, our joint venture partner, Mergentime, was financially unable to fulfill its financial obligations to satisfy the \$40.4 million liability to the Washington Metropolitan Area Transit Authority resulting from the judgment recorded in 2005. Consequentially, we paid the entire amount of that judgment against the joint ventures. Further, if we are unable to adequately address our partner's performance issues, the customer may terminate the project, which could result in legal liability to us, harm our reputation, and reduce our profit on a project.

**Our pension plan is underfunded and we may be required to make significant future contributions to the plan.**

Our defined benefit pension plan is a non-contributory pension plan covering substantially all of our employees. Benefits under our pension plan were frozen as of June 1, 2004. As of December 31, 2006, our pension plan was underfunded by approximately \$12.7 million. We are required to make cash contributions to our pension plan to the extent necessary to comply with minimum funding requirements imposed by employee benefit and tax laws. The amount of any such required contributions is determined based on an annual actuarial valuation of the plan as performed by the plan's actuaries. During 2006, we voluntarily contributed \$6.0 million in cash to our defined benefit pension plan. The amount of our future contributions will depend upon asset returns, then-current discount rates and a number of other factors, and, as a result, the amount we may elect or be required to contribute to our pension plan in the future may vary significantly. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Critical Accounting Policies--Defined Benefit Retirement Plan."

**The construction services industry is highly schedule driven, and our failure to meet schedule requirements of our contracts could adversely affect our reputation and/or expose us to financial liability.**

Many of our contracts are subject to specific completion schedule requirements and subject us to liquidated damages in the event the construction schedules are not achieved. Our failure to meet schedule requirements could subject us not only to liquidated damages, but could further subject us to liability for our customer's actual cost arising out of our delay and cause us to suffer damage to our reputation within our industry and customer base.

**Competition for new project awards is intense and our failure to compete effectively could reduce our market share and profits.**

New project awards are often determined through either a competitive bid basis or on a negotiated basis. Bid or negotiated contracts with public or private owners are generally awarded based upon price, but many times other factors, such as shorter project schedules or prior experience with the customer, influence the award of the contract. Within our industry, we compete with many national, regional and local construction firms. Some of these competitors have achieved greater market penetration than we have in the markets in which we compete, and some have greater financial and other resources than we do. As a result, we may need to accept lower contract margins or more fixed price or unit price contracts in order for us to compete against competitors that have the ability to accept awards at lower prices or have a pre-existing relationship with the customer. If we are unable to compete successfully in such markets, our relative market share and profits could be reduced.

**Economic downturns could reduce the level of consumer spending within the hospitality and gaming industry, which could adversely affect demand for our services.**

Consumer spending in the hospitality and gaming industry is discretionary and may decline during economic downturns, when consumers have less disposable income. Even an uncertain economic outlook may adversely affect consumer spending in hospitality and gaming operations, as consumers may spend less in anticipation of a potential economic downturn. Decreased spending in the hospitality and gaming

market could deter new projects within the industry and the expansion or renovation of existing hospitality and gaming facilities, which could negatively impact our revenues and earnings.

**An inability to obtain bonding could limit the number of projects we are able to pursue.**

As is customary in the construction business, we often are required to provide surety bonds to secure our performance

16

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under construction contracts. Our ability to obtain surety bonds primarily depends upon our capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relationship to the amount of our backlog and their underwriting standards, which may change from time to time. Since 2001, the surety industry has undergone significant changes with several companies withdrawing completely from the industry or significantly reducing their bonding commitment. In addition, certain reinsurers of surety risk have limited their participation in this market. Therefore, we could be unable to obtain surety bonds, when required, which could adversely affect our future results of operations and revenues.

**Conflicts of interest may arise involving our Chairman and Chief Executive Officer and certain of our directors.**

Certain of our directors serve or may serve as officers, directors or principals of our joint venture partners or our competitors. Ronald N. Tutor, our chief executive officer and chairman of our board of directors, is the sole shareholder and chief executive officer of Tutor-Saliba Corporation, or Tutor-Saliba, a California corporation that owns approximately 11.4% of our common stock. Mr. Tutor also devotes a substantial amount of time to the business activities of Tutor-Saliba. Like us, Tutor-Saliba is engaged in the construction industry, and we have participated in joint ventures with Tutor-Saliba and expect to continue to do so. In addition, we have also participated in certain joint ventures with O&G Industries, Inc., whose Vice-Chairman is Raymond R. Oneglia, one of our directors. As in any joint venture, we could have disagreements with our joint venture partner over the operation of a joint venture or a joint venture could be involved in disputes with third parties, where we may or may not have an identity of interest with our joint venture partner. These relationships also may create conflicts of interest including new business and other corporate opportunities.

**We would face risks associated with environmental laws.**

We are subject to federal, state and local environmental laws and regulations, governing activities and operations that may have environmental or health and safety effects, such as the discharge of pollutants into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contamination. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly owned, leased, operated or used sites. We may be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the government or private litigants, relating to our operations, the operations of our facilities, or the land on which our facilities are located. We may be subject to these liabilities regardless of whether we lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third party or a neighboring facility whose operations may have affected such facility or land. This is because liability for contamination under certain environmental laws can be imposed on the current or past owners or operators of a site without regard to fault. Moreover, in the course of our operations, hazardous wastes may be generated at third party owned or operated sites, and hazardous wastes may be disposed of or treated at third party owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigating and remediating those sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

**Our reputation may be harmed and our future earnings may be negatively impacted if we are unable to retain key members of our management.**

Our business substantially depends on the continued service of key members of our management, particularly Ronald N. Tutor, Robert Band, Craig W. Shaw, Mark A. Caspers, John A. Loftus, Martin B. Sisemore and Michael E. Ciskey, who, collectively, have an average of 32 years in the construction industry and 22 years with us. Losing the services of any of these individuals could adversely affect our business until a suitable replacement can be found. We believe that they could not quickly be replaced with executives of equal experience and capabilities. None of these executives is bound by employment agreements with us and we do not maintain key person life insurance policies on any of these executives.

**Our business, financial position, results of operations and cash flows could be adversely affected by work stoppages and other labor problems.**

We are a signatory to numerous local and regional collective bargaining agreements, both directly and through trade associations. Future agreements reached in collective bargaining could increase our operating costs and reduce our profits as a result of increased wages and benefits.

If we or our trade associations are unable to negotiate with any of our unions, we might

17

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experience strikes, work stoppages or increased operating costs as a result of higher than anticipated wages or benefits. If our unionized workers engage in a strike or other work stoppage, or our non-unionized employees become unionized, we could experience a disruption of our operations and higher ongoing labor costs, which could adversely affect our business, financial position, results of operations and cash flows.

**We are subject to restrictive covenants under our credit facility that could limit our flexibility in managing the business.**

Our credit facility imposes operating and financial restrictions on us. These restrictions include, among other things, limitations on our ability to:

- create liens or other encumbrances;
- enter into certain types of transactions with our affiliates;
- make certain capital expenditures;
- make investments, loans or other guarantees;
- sell or otherwise dispose of a portion of our assets; or
- merge or consolidate with another entity.

In addition, our credit facility prohibits us from incurring debt from other sources without the consent of our lenders.

Our credit facility contains financial covenants that require us to maintain minimum net worth, fixed charge coverage and asset coverage levels as well as a maximum leverage ratio. Our ability to borrow funds for any purpose will depend on our satisfying these tests.

If we are unable to meet the terms of the financial covenants or fail to comply with any of the other restrictions contained in our credit facility, an event of default could occur. An event of default, if not waived by our lenders, could result in the acceleration of any outstanding indebtedness, causing such debt to become immediately due and payable. If such an acceleration occurs, we may not be able to repay such indebtedness on a timely basis. Since our credit facility is secured by substantially all of our assets, acceleration of this debt could result in foreclosure of those assets. In the event of a foreclosure, we would be unable to conduct our business and may be forced to discontinue ongoing operations.

**Our acquisition strategy involves a number of risks, the realization of which could adversely impact our future revenues and the revenues of the businesses that we acquire.**

As a part of our growth strategy, we plan to pursue selective strategic acquisitions of businesses, and we may make additional acquisitions in the future. This strategy involves risks, including diversion of our management's attention, potential loss of key employees of acquired businesses and difficulties in integrating operations and systems. We cannot be certain that we will be able to identify suitable acquisition targets or consummate any such acquisition transactions on terms and conditions acceptable to us or that such acquisition transactions will be successful. An inability to successfully integrate acquired businesses into our operations could cause us to incur significant losses.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

18

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**ITEM 2. PROPERTIES**

Properties used in our construction operations are summarized below:

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Principal Offices	Business Segment (s)	Owned or Leased by Perini
Framingham, MA	Building, Civil and Management Services	Owned
Redwood City, CA	Building	Leased
Phoenix, AZ	Building	Leased
Jessup, MD	Civil	Owned
Irvine, CA	Building	Owned
Peekskill, NY	Civil	Owned
Ft. Lauderdale, FL	Building	Leased
Roseville, CA	Building	Leased
San Diego, CA	Building	Leased
Las Vegas, NV	Building	Leased
Bartow, FL	Civil	Owned
Celebration, FL	Building	Leased
West Palm Beach, FL	Building	Leased
<b>Principal Permanent Storage Yards</b>		
Bow, NH	Civil	Owned
Jessup, MD	Civil	Owned
Framingham, MA	Building and Civil	Owned
Peekskill, NY	Civil	Owned
Las Vegas, NV	Building	Leased
Mountain View, CA	Building	Leased

We believe our properties are well maintained, in good condition, adequate and suitable for our purpose and fully utilized.

**ITEM 3. LEGAL PROCEEDINGS**

**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 1999, LAMTA countered with civil claims under the California False Claims Act ( CFCA ) 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 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 claim, and remanded the Joint Venture's claims against LAMTA for extra work required

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by LAMTA and LAMTA's counterclaim under the CFCA 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 reassigned for a new trial.

In 2006, upon remand, the trial court allowed LAMTA to amend its cross-complaint to add the District Attorney as a party in order to have a plaintiff with standing to assert a UCL claim, and allowed a UCL claim to be added. The court also ordered that individual issues of the case be tried separately.

On December 18, 2006, in the trial of the first issue, which arose out of a 1994 change order involving a Disadvantaged Business Enterprise subcontractor pass-through claim, the jury found that the Joint Venture had submitted two false claims for payment and had breached its contract with LAMTA and awarded LAMTA \$111,651 in damages. The court will treble those damages and may award penalties up to \$10,000 for each of the two claims. In addition, the court will determine whether there was one or more violations of the UCL. Each such violation may bear a penalty of up to \$10,000. Briefing on issues of penalties is scheduled to be completed in March, 2007. A final judgment with respect to these claims will not be entered until the entire case has been resolved and is subject to appeal.

On February 21, 2007, the court granted a Joint Venture motion and precluded LAMTA in future proceedings from presenting its claims that the Joint Venture breached its contract and violated the CFCA by allegedly frontloading the so called B Series contracts. The court ordered further briefing on LAMTA's UCL claim on this issue.

The Court has indicated that it would like the parties to resolve the entire case through mediation.

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.

### **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 \$27.0 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.

20

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The motion was denied and the arbitration award was confirmed. As a result, a judgment was 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 April, 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.

#### **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 DRB, which consists of three construction experts chosen by the parties. To date, the DRB has issued five binding awards on PKC's claims. It has ruled that PKC is entitled to additional compensation for the first portion of 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 inefficiencies 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. PKC has taken the position that it is entitled to interest on each of the five binding DRB awards as provided in the awards. It appears that MHD will object to payment of any interest.

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. It is PKC's position that the remaining claims, which have an anticipated value of approximately \$104 million (exclusive of interest), are to be decided by the Third DRB on a binding basis. MHD disputes that the remaining claims before the Third DRB are to be decided on a binding basis. Hearings before the Third DRB began in October, 2006 and are scheduled to occur throughout the remainder of 2007.

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.

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#### **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. It is the Company's understanding that lawyers for two individual Perini Civil employees also are in separate discussions with the U.S. Attorney's Office related to the investigation. On January 8, 2007, the Company was informed by the U.S. Attorney's Office that the Company meets the definition of "subject" in the United States Attorney's Manual. That definition is "a person whose conduct is within the scope of the grand jury's investigation." At the same time, the U.S. Attorney's Office also wrote to the Company that Perini has been cooperatively engaged in discussions with this office and that we are considering a civil settlement with regard to



**PART II.****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

Our common stock is traded on the New York Stock Exchange under the symbol PCR. The quarterly market high and low sales prices for our common stock in 2006 and 2005 are summarized below:

	2006		Hi
	High	Low	
<b><u>Market Price Range per Common Share:</u></b>			
Quarter Ended			
March 31	\$ 31.40	\$ 23.95	\$ 1
June 30	31.77	19.80	1
September 30	24.60	20.86	1
December 31	33.47	20.46	2

**Dividends**

We have not paid any cash dividends on our common stock since 1990. For the foreseeable future, we intend to retain any earnings in our business and we do not anticipate paying any cash dividends. Whether or not to declare any dividends will be at the discretion of our Board of Directors, considering then existing conditions, including our financial condition and results of operations, capital requirements, bonding prospects, contractual restrictions, business prospects and other factors that our Board of Directors considers relevant.

**Holdings**

At February 23, 2007, there were 878 holders of record of our common stock, including holders of record on behalf of an indeterminate number of beneficial owners, based on the stockholders list maintained by our transfer agent.

**Performance Graph**

The following graph compares the cumulative 5-year total return to shareholders on Perini Corporation's common stock relative to the cumulative total returns of the New York Stock Exchange Market Value Index ( NYSE ) and a Construction Peer Group. The thirteen companies included in the Construction Peer Group were selected by the appropriate construction-related Standard Industrial Classification Codes (or SIC Codes). The comparison of total return on investment, defined as the change in year-end stock price plus reinvested dividends, for each of the periods assumes that \$100 was invested on January 1, 2002, in each of Perini Corporation common stock, the NYSE and the Construction Peer Group, with investment weighted on the basis of market capitalization.

The comparisons in the following graph are based on historical data and are not intended to forecast the possible future performance of our common stock.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG PERINI CORPORATION,  
NYSE MARKET VALUE INDEX AND SELECTED CONSTRUCTION PEER GROUP**



	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Perini Corporation	100.00	63.43	130.71	238.43
NYSE	100.00	81.69	105.82	119.50
Construction Peer Group	100.00	60.60	95.19	142.76

The information included under the heading "Performance Graph" in Item 5 of this Annual Report on Form 10-K is furnished and not filed and shall not be deemed to be soliciting material or subject to Regulation 14A, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

25

## ITEM 6. SELECTED FINANCIAL DATA

### Selected Consolidated Financial Information

The following selected financial data has been derived from audited consolidated financial statements and should be read in conjunction with the consolidated financial statements, the related notes thereto and the independent auditors' report thereon, and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K and in previously filed annual reports on Form 10-K of Perini Corporation. Backlog and new business awarded are not measures defined in accounting principles generally accepted in the United States of America and have not been derived from audited consolidated financial statements.

	Year Ended December		
	2006	2005 (1)	2004
	(In thousands, except per		
<b><u>OPERATING SUMMARY</u></b>			
Revenues:			
Building	\$ 2,515,051	\$ 1,181,103	\$ 1,298,771
Civil	281,137	275,584	138,095
Management Services	246,651	276,790	405,449
Total	\$ 3,042,839	\$ 1,733,477	\$ 1,842,315
Cost of Operations	2,873,444	1,663,773	1,750,549
Gross Profit	\$ 169,395	\$ 69,704	\$ 91,766
G&A Expense	98,516	61,751	43,049
Income From Construction Operations	\$ 70,879	\$ 7,953	\$ 48,717
Other (Income) Expense, Net	(2,581)	(971)	3,087
Interest Expense	3,771	2,003	704
Income Before Income Taxes	\$ 69,689	\$ 6,921	\$ 44,926
(Provision) Credit for Income Taxes	(28,153)	(2,872)	(8,919)
<b>Net Income</b>	<b>\$ 41,536</b>	<b>\$ 4,049</b>	<b>\$ 36,007</b>
Income Available for Common Stockholders (2)	\$ 41,117	\$ 5,330	\$ 34,819

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Per Share of Common Stock:			
Basic Earnings	\$ 1.56	\$ 0.21	\$ 1.47
Diluted Earnings	\$ 1.54	\$ 0.20	\$ 1.39
Cash Dividend Declared	\$ -	\$ -	\$ -
Book Value	\$ 9.18	\$ 6.86	\$ 6.34
Weighted Average Common Shares Outstanding:			
Basic	26,308	25,518	23,724
Diluted	26,758	26,150	25,061

26

	Year Ended December		
	2006	2005 (1)	2004
	(In thousands, except		
<b><u>FINANCIAL POSITION SUMMARY</u></b>			
Working Capital	\$ 193,952	\$ 153,335	\$ 178,029
Current Ratio	1.22x	1.23x	1.41x
Long-term Debt, less current maturities	\$ 34,135	\$ 39,969	\$ 8,608
Stockholders' Equity	\$ 243,859	\$ 183,175	\$ 174,034
Ratio of Long-term Debt to Equity	.14x	.22x	.05x
Total Assets	\$ 1,195,992	\$ 915,256	\$ 654,265
<b><u>OTHER DATA</u></b>			
Backlog at Year End (3)	\$ 8,451,381	\$ 7,897,784	\$ 1,151,475
New Business Awarded (4)	\$ 3,596,436	\$ 8,479,786	\$ 1,327,326

(1) Includes the results of Cherry Hill acquired effective January 1, 2005 and Rudolph and Sletten acquired October 3, 2005.

(2) Income available for common stockholders includes adjustments to net income for (a) accrued dividends on our \$21.25 Preferred Stock, or \$2.125 Depositary Shares, (b) the reversal of previously accrued and unpaid dividends in the amount of approximately \$7.3 million applicable to 440,627 of the \$2.125 Depositary Shares purchased and retired by us in June 2003, (c) the reversal of previously accrued and unpaid dividends in the amount of approximately \$2.3 million applicable to 374,185 of the \$2.125 Depositary Shares purchased and retired by us in November 2005, and (d) the \$0.3 million excess of fair value over carrying value upon redemption of the remaining outstanding \$2.125 Depositary Shares in May 2006.

- (3) A construction project is included in our backlog at such time as a contract is awarded or a firm letter of commitment is obtained and funding is in place. Backlog is not a measure defined in accounting principles generally accepted in the United States of America, or GAAP, and our backlog may not be comparable to the backlog of other companies. Management uses backlog to assist in forecasting future results.
- (4) New business awarded consists of the original contract price of projects added to our backlog in accordance with Note (3) above plus or minus subsequent changes to the estimated total contract price of existing contracts. Management uses new business awarded to assist in forecasting future results.

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## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

We were incorporated in 1918 as a successor to businesses that had been engaged in providing construction services since 1894. We provide diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. Our construction business is conducted through three basic segments or operations: building, civil and management services. Our building segment has significant experience providing services to a number of high growth, specialized building markets, including the hospitality and gaming, sports and entertainment, education, transportation, healthcare, biotech, pharmaceutical and high-tech markets. Our civil segment specializes in public works construction and the repair, replacement and reconstruction of infrastructure, including highways, bridges, mass transit systems and water and wastewater treatment facilities, primarily in the northeastern and mid-Atlantic United States. Our management services segment provides diversified construction and design-build services to the U. S. military and federal government agencies, as well as surety companies and multi-national corporations in the United States and overseas. We have been chosen by the federal government for significant projects related to defense and reconstruction in Iraq and Afghanistan.

The contracting and management services that we provide consist of general contracting, pre-construction planning and comprehensive management services, including planning and scheduling the manpower, equipment, materials and subcontractors required for the timely completion of a project in accordance with the terms and specifications contained in a construction contract. We also offer self-performed construction services including site work, concrete forming and placement and steel erection. We provide these services by using traditional general contracting arrangements, such as fixed price, guaranteed maximum price and cost plus fee contracts and, to a lesser extent, construction management or design-build contracting arrangements. In the ordinary course of our business, we enter into arrangements with other contractors, referred to as joint ventures, for certain construction projects. Each of the joint venture participants is usually committed to supply a predetermined percentage of capital, as required, and to share in a predetermined percentage of the income or loss of the project. Each joint venture participant is fully liable for the obligations of the joint venture.

For the year ended December 31, 2006, we had record revenues of \$3.043 billion, record pretax income of \$69.7 million, and net income of \$41.5 million. All of our business segments recorded significantly higher profit contributions in 2006 compared to 2005. We received significant new contract awards, as well as additions to contracts in place, during 2006 resulting in a record year-end backlog of \$8.5 billion at December 31, 2006. Our financial condition strengthened during 2006. At December 31, 2006, we had working capital of \$194.0 million, a ratio of current assets to current liabilities of 1.22 to 1.00, and a ratio of long-term debt to equity of 0.14 to 1.00. Our solid base of stockholders' equity increased to \$243.9 million as of December 31, 2006, reflecting the outstanding operating results achieved over the past five years. In addition, on February 22, 2007, we closed on a new \$125 million credit facility that can be expanded to \$175 million in the future.

### **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*

On April 5, 2006 and May 18, 2006, the Compensation Committee of our Board of Directors approved the grant

28

of 1,295,000 restricted stock units to certain of our executive officers and employees under our 2004 Stock Option and Incentive Plan. Of the restricted stock units granted, 150,000 vested on June 30, 2006 and 15,000 vested on December 31, 2006. Of the remaining restricted stock units granted, 765,000 generally vest equally on December 31 of 2007, 2008 and 2009 and 365,000 generally vest on December 31, 2009. Of the restricted stock units granted, 745,000 (including the 165,000 restricted stock units that vested in 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 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. We recognized a \$16.5 million pretax charge in 2006 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 2007 through 2009. Absent significant forfeitures in the future, we estimate that \$24.2 million of compensation cost related to these restricted stock units will be recognized over a weighted average period of 2.5 years.

*Amended and Restated Credit Agreement*

On February 22, 2007, we entered into an Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, and three participant lenders (the *Amended Agreement*). The Amended Agreement amends and restates in its entirety the Company's previously existing credit agreement dated as of October 14, 2005, as amended through April 13, 2006 (the *Prior Agreement*).

The Amended Agreement provides for a secured revolving credit facility (the *Revolving Facility*) of up to \$125 million, which can be expanded to \$175 million in the future with the consent of the lenders. This represents an increased borrowing capacity from the *Prior Agreement*, which provided for a revolving credit facility of \$50 million, plus a term loan in the original amount of \$30 million, of which \$22.5 million was outstanding at December 31, 2006. The term loan was paid in full on February 22, 2007 in conjunction with the closing of the Amended Agreement.

While the Amended Agreement also provides for an increase in the aggregate amount of letters of credit that may be issued under the agreement from \$15 million to \$50 million, any outstanding letters of credit reduce availability under the *Revolving Facility* on a dollar-for-dollar basis. The termination date of the *Revolving Facility* was extended from June 30, 2008 to February 22, 2012. For a more detailed description of the Amended Agreement, see *Liquidity and Capital Resources - Cash and Working Capital* below.

*Backlog Analysis for 2006*

We received significant new contract awards, as well as additions to contracts in place, during 2006 resulting in a record year-end backlog of \$8.5 billion at December 31, 2006. The following table provides an analysis of our backlog by business segment for the year ended December 31, 2006.

	Backlog at December 31, 2005	New Business Awarded (1)	Revenue Recognized	Backlog December 31,
	(in thousands)			
Building	\$ 7,180,369	\$ 3,167,039	\$2,515,051	\$ 7,
Civil	422,988	287,834	281,137	
Management Services	294,427	141,563	246,651	
Total	\$ 7,897,784	\$ 3,596,436	\$3,042,839	\$ 8,

- (1) New business awarded consists of the original contract price of projects added to our backlog plus or minus subsequent changes to the estimated total contract price of existing contracts.

### Critical Accounting Policies

Our accounting and financial reporting policies are in conformity with accounting principles generally accepted in the United States of America ( GAAP ). The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Although our significant accounting policies are described in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Item 15 of this Form 10-K, the following discussion is intended to describe those accounting policies most critical to the preparation of our consolidated financial statements.

*Use of Estimates* - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our construction business involves making significant estimates and assumptions in the normal course of business relating to our contracts and our joint venture contracts due to, among other things, the one-of-a-kind nature of most of our projects, the long-term duration of our contract cycle and the type of contract utilized. Therefore, management believes that Method of Accounting for Contracts is the most important and critical accounting policy. The most significant estimates with regard to these financial statements relate to the estimating of total forecasted construction contract revenues, costs and profits in accordance with accounting for long-term contracts (see Note 1(d) of Notes to Consolidated Financial Statements) and estimating potential liabilities in conjunction with certain contingencies, including the outcome of pending or future litigation, arbitration or other dispute resolution proceedings relating to contract claims (see Note 2 of Notes to Consolidated Financial Statements). Actual results could differ from these estimates and such differences could be material.

Our estimates of contract revenue and cost are highly detailed. We believe, based on our experience, that our current systems of management and accounting controls allow management to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labor, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Because we have many contracts in process at any given time, these changes in estimates can offset each other without impacting overall profitability. However, large changes in cost estimates on larger, more complex civil construction projects can have a material impact on our financial statements and are reflected in our results of operations when they become known.

When recording revenue on contracts relating to unapproved change orders and claims, we include in revenue an amount equal to the amount of costs incurred by us to date for contract price adjustments that we seek to collect from customers for delays, errors in specifications or designs, change orders in dispute or unapproved as to scope or price, or other unanticipated additional costs, in each case when recovery of the costs is considered probable. When determining the likelihood of eventual recovery, we consider such factors as evaluation of entitlement, settlements reached to date and our experience with the customer. The settlement of these issues often takes years depending upon whether the item can be resolved directly with the customer or involves litigation or arbitration. When new facts become known, an adjustment to the estimated recovery is made and reflected in the current period results.

The amount of unapproved change order and claim revenue is included in our balance sheet as part of Unbilled Work. The amount of Unbilled Work relating to unapproved change orders and claims included in our balance sheet at December 31, 2006 and 2005 is summarized below:

30

	December 31,	
	2006	2005
	(in thousands)	
Unapproved Change Orders	\$ 8,369	\$ 7,067
Claims	54,961	59,904
	\$ 63,330	\$ 66,971

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Of the balance of unapproved change orders and claims included in Unbilled Work at December 31, 2006 and December 31, 2005, approximately \$36.9 million and \$36.7 million respectively, are amounts subject to pending litigation or dispute resolution proceedings as described in Item 3, "Legal Proceedings" and Note 2, "Contingencies and Commitments" of Notes to Consolidated Financial Statements for the respective periods. These amounts are management's estimate of the probable recovery from the disputed claims considering such factors as evaluation of entitlement, settlements reached to date and our experience with the customer. In the event that future facts and circumstances, including the resolution of disputed claims, cause us to reduce the aggregate amount of our estimated probable recovery from the disputed claims, we will record the amount of such reduction against future earnings in the relevant period.

*Method of Accounting for Contracts* - Revenues and profits from our contracts and construction joint venture contracts are recognized by applying percentages of completion for the period to the total estimated profits for the respective contracts. Percentage of completion is determined by relating the actual cost of the work performed to date to the current estimated total cost of the respective contracts. When the estimate on a contract indicates a loss, the entire loss is recorded during the accounting period in which it is estimated. In the ordinary course of business, at a minimum on a quarterly basis, we prepare updated estimates of the total forecasted revenue, cost and profit or loss for each contract. The cumulative effect of revisions in estimates of the total forecasted revenue and costs, including unapproved change orders and claims, during the course of the work is reflected in the accounting period in which the facts that caused the revision become known. The financial impact of these revisions to any one contract is a function of both the amount of the revision and the percentage of completion of the contract. An amount equal to the costs incurred that are attributable to unapproved change orders and claims is included in the total estimated revenue when realization is probable. For a further discussion of unapproved change orders and claims, see Item 1, "Business - Types of Contracts and The Contract Process" and Item 1A, "Risk Factors". Profit from unapproved change orders and claims is recorded in the accounting period such amounts are resolved.

Deferred contract revenue represents the excess of billings to date over the amount of contract costs and profits (or contract revenue) recognized to date on the percentage of completion accounting method. Unbilled work represents the excess of contract costs and profits (or contract revenue) recognized to date on the percentage of completion accounting method over billings to date. Unbilled work results when (1) the appropriate contract revenue amount has been recognized in accordance with the percentage of completion accounting method, but a portion of the revenue recorded cannot be billed currently due to the billing terms defined in the contract and/or (2) costs, recorded at estimated realizable value, related to unapproved change orders or claims are incurred. For unapproved change orders or claims that cannot be resolved in accordance with the normal change order process as defined in the contract, we may employ other dispute resolution methods, including mediation, binding and non-binding arbitration, or litigation. See Item 3 - "Legal Proceedings" and Note 2, "Contingencies and Commitments" of Notes to Consolidated Financial Statements. The prerequisite for billing unapproved change orders and claims is the final resolution and agreement between the parties. Unbilled work related to our contracts and joint venture contracts at December 31, 2006 is discussed above under "Use of Estimates" and in Note 1(d) of Notes to Consolidated Financial Statements.

*Accounting for Income Taxes* - Information relating to our provision for income taxes and the status of our deferred tax assets and liabilities is presented in Note 5, "Income Taxes" of Notes to Consolidated Financial Statements.

31

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A key assumption in the determination of our book tax provision is the amount of the valuation allowance, if any, required to reduce the related deferred tax assets. A valuation allowance reduces the deferred tax assets to a level which will, more likely than not, be realized. Whether the deferred tax assets will be realized depends on the generation of future taxable income during the periods in which the deferred tax assets become deductible. The net deferred tax assets reflect management's estimate of the amount which will, more likely than not, reduce future taxable income.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 as of January 1, 2007, as required. FIN 48 requires that the cumulative effect of its adoption be recorded as a change to opening retained earnings in the first quarter of 2007. We expect that the adoption of FIN 48 will not have a significant impact on our consolidated financial position, results of operations and effective tax rate and we believe that any adjustment recorded to reduce opening retained earnings will be immaterial.

*Defined Benefit Retirement Plan* - The status of our defined benefit pension plan obligations, related plan assets and cost is presented in Note 7 of Notes to Consolidated Financial Statements entitled "Employee Benefit Plans". Plan obligations and annual pension expense are determined by actuaries using a number of key assumptions which include, among other things, the discount rate, the estimated future return on plan assets and the anticipated rate of future salary increases. The discount rate of 5.62% used for purposes of computing the 2006 annual pension expense was determined at the beginning of the calendar year based on high-quality corporate bond yields as of that date. We plan to change the discount rate used for computing the 2007 annual pension expense to 5.86% based upon an analysis performed by our actuaries which matches the cash flows of our plan's projected liabilities to bond investments of similar amounts and durations.

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The estimated return on plan assets is primarily based on historical long-term returns of equity and fixed income markets according to our targeted allocation of plan assets (75% equity and 25% fixed income). We plan to continue to use a return on asset rate of 7.5% in 2007 based on recent equity market performance compared to long-term historical averages.

The plans' benefit obligations exceeded the fair value of plan assets on December 31, 2006, 2005, and 2004. Accordingly, we adjusted our pension liability by a decrease of \$5.9 million in 2006, and increases of \$0.6 million in 2005 and \$5.0 million in 2004, with the offset to accumulated other comprehensive income (loss), an increase (reduction) in stockholders' equity.

Effective June 1, 2004, all benefit accruals under our pension plan were frozen; however, the current vested benefits will be preserved. Due to the expected change in the discount rate assumption for 2007 noted above and to decreased amortization of prior years' investment losses in accordance with SFAS No. 87, "Employers' Accounting for Pensions," we anticipate that pension expense will decrease from \$2.6 million in 2006 to \$1.9 million in 2007. Cash contributions to our defined benefit pension plan are anticipated to be \$3.2 million in 2007, but using our current assumptions regarding asset performance and the interest rate environment, cash contributions may vary significantly in the future.

### Results of Operations - 2006 Compared to 2005

Revenues increased by \$1.3 billion, gross profit increased by \$99.7 million, income from construction operations increased by \$63.0 million, and net income increased by \$37.5 million (or 937.5%) in 2006. These increases primarily reflect the addition of Rudolph & Sletten which we acquired in October 2005, an increased volume of work in the hospitality and gaming market as a result of the significant new contract awards we received in the latter half of 2005, and

32

an increased profit contribution from our management services segment. Moreover, the 2005 operating results were severely impacted by an after-tax charge of \$23.6 million relating to the judgment against two Company joint ventures in the matter of Mergentime Corporation, et al. vs. Washington Metropolitan Area Transit Authority ("WMATA"). Without the impact of the WMATA charge in 2005, net income would have been \$27.7 million for the year ended December 31, 2005, compared to \$41.5 million for the year ended December 31, 2006. The operating results for the year ended December 31, 2006 were reduced by a \$16.5 million pretax charge related to stock-based compensation expense resulting from restricted stock units granted in 2006. Basic earnings per common share were \$1.56 for the year ended December 31, 2006, compared to \$0.21 for the year ended December 31, 2005. Diluted earnings per common share were \$1.54 for the year ended December 31, 2006, compared to \$0.20 for the year ended December 31, 2005.

	Revenues for the Year Ended December 31,		Increase (Decrease)	%
	2006	2005		
	(In millions)			
Building	\$ 2,515.1	\$ 1,181.1	\$ 1,334.0	112.9 %
Civil	281.1	275.6	5.5	2.0 %
Management Services	246.6	276.8	(30.2)	(10.9) %
Total	\$ 3,042.8	\$ 1,733.5	\$ 1,309.3	75.5 %

Overall revenues increased by \$1.3 billion (or 75.5%), from \$1.7 billion in 2005 to \$3.0 billion in 2006. This increase was due primarily to an increase in building construction revenues of \$1,334.0 million (or 112.9%), from \$1,181.1 million in 2005 to \$2,515.1 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 we received in the latter half of 2005. Without the addition of Rudolph & Sletten, building construction revenues would have increased by \$669.8 million (or 67.3%) in 2006. Civil construction revenues increased by \$5.5 million (or 2.0%), from \$275.6 million in 2005 to \$281.1 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 \$30.2 million (or 10.9%), from \$276.8 million in 2005 to \$246.6 million in 2006, due primarily to a decreased volume of work in Afghanistan.

### Income from Construction Operations for the Year Ended December 31,

Increase %

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	2006	2005	(Decrease)	Change
	-----	-----	-----	-----
	(In millions)			
Building	\$ 59.3	\$ 29.3	\$ 30.0	102.4%
Civil	1.8	(26.9)	28.7	106.7%
Management Services	34.3	19.1	15.2	79.6%
	-----	-----	-----	
Subtotal	\$ 95.4	\$ 21.5	\$ 73.9	343.7%
	-----	-----	-----	
Less: Corporate	(24.5)	(13.6)	10.9	80.1%
	-----	-----	-----	
Total	\$ 70.9	\$ 7.9	\$ 63.0	797.5%
	=====	=====	=====	

Income from construction operations (excluding corporate) increased by \$73.9 million (or 343.7%), from \$21.5 million in 2005 to \$95.4 million in 2006. Building construction income from operations increased by \$30.0 million (or 102.4%), from \$29.3 million in 2005 to \$59.3 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 \$11.1 million (or 40.7%) due primarily to the increased volume of work in the hospitality and gaming market as a result of the

33

significant new contract awards we received in the latter half of 2005. Building construction income from operations was reduced by a \$4.0 million charge related to stock-based compensation expense resulting from certain restricted stock units granted in 2006. Civil construction income from operations increased by \$28.7 million (or 106.7%), from a loss of \$26.9 million in 2005 to income of \$1.8 million in 2006, due primarily to the adverse impact of the WMATA charge in 2005. Without the WMATA charge, civil construction income from operations would have decreased by \$11.7 million (or 86.7%), from \$13.5 million in 2005 to \$1.8 million in 2005, 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 reduced in 2006 by a \$1.5 million charge related to stock-based compensation expense resulting from certain restricted stock units granted in 2006. Despite the decrease in revenues discussed above, management services income from operations increased by \$15.2 million (or 79.6%), from \$19.1 million in 2005 to \$34.3 million in 2006, due primarily to favorable performance on work in Iraq. In addition, management services income from operations benefited from a \$1.0 million decrease in management services-related general and administrative expenses, due primarily to a \$0.7 million decrease in stock-based compensation expense resulting from the amortization of certain restricted stock awards granted in 2006 and 2004. Overall income from construction operations was reduced by a \$10.9 million increase in corporate general and administrative expenses, from \$13.6 million in 2005 to \$24.5 million in 2006, due primarily to a \$9.0 million increase in corporate stock-based compensation expense resulting from the amortization of certain restricted stock units granted in 2006 and 2004, as well as the recognition of \$1.5 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 \$1.6 million, from income of \$1.0 million in 2005 to income of \$2.6 million in 2006, due primarily to a \$3.3 million 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 we generated from operating activities in the latter half of 2006. Partly offsetting this increase was a \$2.0 million decrease in net gain recorded from the sale of certain parcels of developed land held for sale. Based on our limited remaining inventory of developed land held for sale and the anticipated potential selling prices for those parcels, we believe that the net gain recorded in 2005 is of a non-recurring nature and is not indicative of expected future results.

Interest expense increased by \$1.8 million, from \$2.0 million in 2005 to \$3.8 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 \$25.3 million, from \$2.9 million in 2005 to \$28.2 million in 2006, due primarily to the increase in pretax income in 2006. The effective tax rate for 2006 was 40.4%. The effective tax rate for 2005 was 41.5%.

**Results of Operations -  
2005 Compared to 2004**

Net income for the year ended December 31, 2005 was \$4.0 million, a \$32.0 million decrease from the \$36.0 million recorded in 2004. The 2005 net income was severely impacted by the WMATA judgment discussed above which resulted in an after-tax charge of \$23.6 million. In addition, net income for the year ended December 31, 2004 reflects a lower-than-normal tax rate due to the realization of a portion of the federal tax benefit not recognized in prior years due to certain accounting limitations. These negative effects on 2005 net income compared to 2004



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were partly offset by profit contributions realized from the acquisitions during 2005 of both Cherry Hill and Rudolph & Sletten. On a pretax basis, earnings for the year ended December 31, 2005 were \$6.9 million, a \$38.0 million decrease from the then record \$44.9 million recorded in 2004. However, without the impact of the WMATA charge, pretax earnings for 2005 would have been a record \$47.3 million, exceeding the 2004 record of \$44.9 million. Although revenues decreased by \$108.8 million in 2005 as the timing of new work awards was slower than anticipated, pretax earnings without the WMATA charge would have increased due to the profit contributions realized from the acquisitions during 2005 of both Cherry Hill and Rudolph & Sletten, as well as from improved gross margins experienced by all of our business segments in 2005.

Basic earnings per common share were \$0.21 for the year ended December 31, 2005 compared to \$1.47 for the

34

year ended December 31, 2004. Diluted earnings per common share were \$0.20 for the year ended December 31, 2005 compared to \$1.39 for the year ended December 31, 2004. The basic and diluted earnings per share calculations for the year ended December 31, 2005 were favorably impacted by \$0.09 per share due to the reversal of a pro rata portion of accumulated but unpaid dividends on our \$21.25 Preferred Stock as a result of the settlement of the lawsuit brought by certain holders of our \$21.25 Preferred Stock.

	Revenues for the Year Ended December 31,		Increase (Decrease)	%
	2005	2004		
	(In millions)			
Building	\$ 1,181.1	\$ 1,298.8	\$ (117.7)	(9.1) %
Civil	275.6	138.1	137.5	99.6 %
Management Services	276.8	405.4	(128.6)	(31.7) %
	\$ 1,733.5	\$ 1,842.3	\$ (108.8)	(5.9) %
	\$ 1,733.5	\$ 1,842.3	\$ (108.8)	(5.9) %

Overall revenues decreased by \$108.8 million (or 5.9%), from \$1,842.3 million in 2004 to \$1,733.5 million in 2005. Management services revenues decreased by \$128.6 million (or 31.7%), from \$405.4 million in 2004 to \$276.8 million in 2005 due primarily to a decreased volume of work related to the rebuilding of Iraq. Building construction revenues decreased by \$117.7 million (or 9.1%), from \$1,298.8 million in 2004 to \$1,181.1 million in 2005, due primarily to the timing of the start-up of new work in the hospitality and gaming market as the timing of new work awards was slower than anticipated. We received significant new awards in the hospitality and gaming market in the latter half of 2005; however, the timing of the receipt of those new awards did not allow for a significant amount of work to be put in place during 2005. Partly offsetting the overall decrease in building construction revenues was an increase of \$189.5 million due to the acquisition of Rudolph & Sletten in October 2005. Civil construction revenues increased by \$137.5 million (or 99.6%), from \$138.1 million in 2004 to \$275.6 million in 2005, due to the impact of the Cherry Hill acquisition.

	Income from Construction Operations for the Year Ended December 31,		Increase (Decrease)	%
	2005	2004		
	(In millions)			
Building	\$ 29.3	\$ 23.6	\$ 5.7	24.2 %
Civil	(26.9)	5.5	(32.4)	(589.1) %
Management Services	19.1	29.9	(10.8)	(36.1) %
	\$ 21.5	\$ 59.0	\$ (37.5)	(63.6) %
Less: Corporate	(13.6)	(10.3)	3.3	32.0 %
	\$ 7.9	\$ 48.7	\$ (40.8)	(83.8) %
	\$ 7.9	\$ 48.7	\$ (40.8)	(83.8) %

Income from construction operations (excluding corporate) decreased by \$37.5 million (or 63.6%), from \$59.0 million in 2004 to \$21.5 million in 2005. Management services income from operations decreased by \$10.8 million (or 36.1%), from \$29.9 million in 2004 to \$19.1 million in 2005, due primarily to the decrease in revenues discussed above. Partly offsetting the negative impact of the decrease in management services revenues was a higher gross profit margin, largely due to profit increases recognized upon the completion and close-out of two overseas projects. Despite the decrease in building construction revenues, building construction income from operations increased by \$5.7 million (or 24.2%), from \$23.6 million in 2004 to \$29.3 million in 2005, due primarily to the profit contribution realized from the

acquisition of Rudolph & Sletten plus the impact of higher gross profit margins realized by all of our business units within the building construction segment largely due to profit increases recognized upon the completion and close-out of several hospitality and gaming market projects. Building construction income from operations was reduced by a \$7.8 million increase in building construction-related general and administrative expenses, due primarily to the addition of Rudolph & Sletten in 2005. Civil construction income from operations decreased by \$32.4 million (or 589.1%), from income of \$5.5 million in 2004 to a loss of \$26.9 million in 2005, due primarily to the adverse impact of the WMATA charge. Without the WMATA charge, civil construction income from operations would have increased by \$8.0 million (or 145.5%), from \$5.5 million in 2004 to \$13.5 million in 2005, due primarily to the impact of the Cherry Hill acquisition. Civil construction income from operations was reduced by a \$7.0 million increase in civil construction-related general and administrative expenses due primarily to the addition of Cherry Hill in 2005. Overall income from construction operations was reduced by a \$3.3 million increase in corporate general and administrative expenses, from \$10.3 million in 2004 to \$13.6 million in 2005, due primarily to a \$1.8 million increase in compensation expense related to the amortization of certain restricted stock awards granted in the second half of 2004. Also, corporate general and administrative expenses increased due to increased Board of Directors' fees and directors and officers' liability insurance, an increased provision for incentive compensation and increased audit fees due to our acquisitions in 2005 and to continued compliance requirements under the Sarbanes-Oxley Act of 2002.

Other income (expense) increased by \$4.1 million, from an expense of \$3.1 million in 2004 to income of \$1.0 million in 2005, due primarily to a \$1.6 million net gain recorded from the sale of certain parcels of developed land held for sale and a \$1.1 million decrease in expenses related to secondary public stock offerings. In addition, there was a \$0.2 million one-time charge recorded in the second quarter of 2004 due to the decision to freeze all benefit accruals under our defined benefit pension plan effective June 1, 2004.

Interest expense increased by \$1.3 million, from \$0.7 million in 2004 to \$2.0 million in 2005, due to interest expense on mortgage debt and equipment financing debt assumed in conjunction with the Cherry Hill acquisition and increased borrowings under our Credit Agreement to fund our acquisition of Rudolph & Sletten.

The provision for income taxes decreased by \$6.0 million, from \$8.9 million in 2004 to \$2.9 million in 2005, due primarily to the decrease in pretax income in 2005. The effective tax rate, however, more than doubled to 41.5% in 2005 compared to 19.9% in 2004, due primarily to the realization in 2004 of a \$7.9 million federal tax benefit not recognized in prior years due to certain accounting limitations.

## **Liquidity and Capital Resources**

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

Cash and cash equivalents as reported in the accompanying Consolidated Statements of Cash Flows 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. Cash held by construction joint ventures is distributed from time to time to us 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 us from our construction joint ventures are then available for general corporate purposes. At December 31, 2006 and 2005, cash held by us and available for general corporate purposes was \$189.6 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 \$35.9 million and \$40.1 million, respectively.

Billing procedures in the construction industry generally are based on the specific billing terms of a contract. For example, billings may be based on various measures of performance, such as cubic yards excavated, architect's estimates of completion, costs incurred on cost-plus type contracts or weighted progress from a cost loaded construction time schedule. Billings are generally on a monthly basis and are reviewed and approved by the customer prior to submission. Therefore, once a bill is submitted, we are generally able to collect amounts owed to us in accordance with the payment terms of the contract. In addition, receivables of a contractor usually include retentions, or amounts that are held back

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until contracts are completed or until specified contract conditions or guarantees are met. Retentions are governed by contract provisions and are typically a fixed percentage (for example, 5% or 10%) of each billing. We generally follow the policy of paying our vendors and subcontractors on a particular project after we receive payment from our customer.

A summary of cash flows for each of the years ended December 31, 2006, 2005 and 2004 is set forth below:

	Year Ended December 31,		
	2006	2005	2004
	(In millions)		
Cash flows from:			
Operating activities	\$ 116.9	\$ 30.3	\$ 59.8
Investing activities	(18.0)	(43.5)	(1.9)
Financing activities	(13.2)	16.7	10.6
	\$ 85.7	\$ 3.5	\$ 68.5
Net increase in cash			
Cash at beginning of year	139.8	136.3	67.8
	\$ 225.5	\$ 139.8	\$ 136.3
Cash at end of year	=====	=====	=====

During 2006, we generated \$116.9 million in cash flow from operating activities to fund \$18.0 million in investing activities, principally to fund the purchase of construction equipment to support our substantial backlog and property to be used in support of our building construction operations; and to fund \$13.2 million in financing activities, primarily to redeem the remaining outstanding shares of our \$21.25 Preferred Stock, and to pay down debt assumed in conjunction with the acquisition of Cherry Hill. As a result, we increased our cash balance by \$85.7 million during 2006. The substantial increase in cash flow from operating activities is primarily due to the substantial increase in our building segment revenues, including the acquisition of Rudolph & Sletten, as well as favorable operating results in our management services segment. Cash flow from operating activities increased substantially even though 2006 included payment of the \$40.4 million WMATA judgment recorded in 2005.

During 2005, we generated \$30.3 million in cash flow from operating activities and \$16.7 million in cash flow from financing activities to fund \$43.5 million in investing activities and to increase our cash balance by \$3.5 million. Cash flow from financing activities primarily reflects \$30.0 million in proceeds received from a new secured term loan established in conjunction with the new credit agreement that we entered into on October 14, 2005. Cash flow from financing activities also includes a \$12.8 million reduction in debt, primarily to pay down a portion of the debt we assumed in conjunction with the acquisition of Cherry Hill, and a \$7.1 million expenditure for the purchase of our \$21.25 Preferred Stock pursuant to the terms of the settlement of the lawsuit brought by certain holders of our \$21.25 Preferred Stock. Cash flow used by investing activities primarily reflects the funding of the acquisitions of Cherry Hill in January 2005 and Rudolph & Sletten in October 2005 for \$20.0 million and \$53.6 million, respectively, net of the cash balances acquired, as well as the purchase of construction equipment used in our operations. Proceeds from investing activities include \$36.4 million from the sale of certain marketable securities acquired in the purchases of Cherry Hill and Rudolph & Sletten, and \$4.0 million from the sale of certain parcels of land.

During 2004, we generated \$59.8 million in cash flow from operating activities and \$10.6 million in cash flow from financing activities, primarily from \$11.6 million received from the exercise of common stock options, to fund \$1.9 million in cash flow used by investing activities, primarily to purchase construction equipment, and to increase our cash balance by \$68.5 million.

Working capital increased, from \$178.0 million at the end of 2004 to \$194.0 million at December 31, 2006 even though 2005 included the funding of our acquisitions of Cherry Hill and Rudolph & Sletten. The current ratio decreased from 1.41x to 1.22x during the same period. As of December 31, 2006, accounts receivable amounted to \$747.6 million and comprised approximately 69% of our total current assets. This compares to accounts receivable of \$536.4 million, or approximately 67% of our total current assets as of December 31, 2005.

37

On February 22, 2007, we entered into an Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, and three participant lenders (the "Amended Agreement"). The Amended Agreement amends and restates in its entirety the Company's previously existing credit agreement dated as of October 14, 2005, as amended through April 13, 2006 (the "Prior Agreement").

The Amended Agreement provides for a secured revolving credit facility (the "Revolving Facility") of up to \$125 million, which can be expanded to \$175 million in the future with the consent of the lenders. This represents an increased borrowing capacity from the Prior Agreement, which provided for a revolving credit facility of \$50 million, plus a term loan in the original amount of \$30 million, of which \$22.5 million was outstanding at December 31, 2006. The term loan was paid in full on February 22, 2007 in conjunction with the closing of the

Amended Agreement.

We can choose from interest rate alternatives including a prime-based rate, as well as Eurodollar rate-based options. While the Amended Agreement also provides for an increase in the aggregate amount of letters of credit that may be issued under the agreement from \$15 million to \$50 million, any outstanding letters of credit reduce availability under the Revolving Facility on a dollar-for-dollar basis. The termination date of the Revolving Facility was extended from June 30, 2008 to February 22, 2012.

The Amended Agreement requires us to comply with certain financial and other covenants at the end of each fiscal quarter, including:

- a consolidated net worth of at least \$160.5 million, increased on a cumulative basis commencing with the fiscal quarter ending December 31, 2006, by an amount equal to 50% of consolidated net income (with no deductions for net losses) for the fiscal quarter then ended plus 100% of the amount of all Equity Issuances (as defined in the Amended Agreement) after February 22, 2007 that increase our consolidated shareholders' equity;
- a consolidated leverage ratio of no more than 2.5 to 1.0;
- a fixed charge coverage ratio of consolidated EBITDA over covered charges (which includes interest expense, cash taxes, scheduled payments of principal and interest, and current period dividends on our preferred stock) of at least 1.5 to 1.0; and
- a consolidated asset coverage ratio of at least 1.5 to 1.0.

The Amended Agreement also includes operational covenants customary for facilities of this type, including limitations on incurring additional indebtedness and liens, as well as restrictions on types of investments and the purchase and sale of assets outside of the normal course of business. Our obligations under the Amended Agreement are guaranteed by substantially all of our current and future subsidiaries, and secured by substantially all of our and our subsidiaries' assets.

**Off-Balance Sheet Arrangements**

We do not have any financial partnerships with unconsolidated entities, such as entities often referred to as structured finance, special purpose entities or variable interest entities which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had such relationships.

**Long-term Debt**

Long-term debt at December 31, 2006 was \$34.1 million, a decrease of \$5.9 million from December 31, 2005, due primarily to the reduction in the term loan that we received in October, 2005 that we used to refinance a portion of the

purchase price for the Rudolph & Sletten acquisition. In addition, the decrease reflects a reduction in the long-term debt we assumed in conjunction with the acquisition of Cherry Hill. Accordingly, the long-term debt to equity ratio was .14x at December 31, 2006, compared to .22x at December 31, 2005. Concurrently with the closing of the new credit agreement on February 22, 2007, we paid in full the \$22.5 million balance outstanding as of December 31, 2006 under the term loan portion of our prior credit agreement.

**Contractual Obligations**

Our outstanding contractual obligations as of December 31, 2006 are summarized in the following table:

	Total	Payments Due by Period		
		Less Than 1 Year	1-3 Years	3-5
(In thousands)				
Total debt, excluding interest	\$ 48,742 (a)	\$ 14,607 (b)	\$ 21,197 (b)	\$
Interest payments on debt	4,115 (c)	1,747	1,792	

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Operating leases, net	19,336	6,092	7,610	
Purchase obligations	3,339	3,191	148	
Unfunded pension liability	15,652	3,318	6,636	(d)
Tutor-Saliba management agreement	900	900	-	
	-----	-----	-----	-----
Total contractual obligations	\$ 92,084	\$ 29,855	\$ 37,383	\$
	=====	=====	=====	=====

- (a) Includes capital leases in the amount of \$625.
- (b) Includes an amount related to the \$22.5 million balance outstanding on our Term Loan at December 31, 2006 which was repaid on February 22, 2007 in conjunction with our new credit agreement.
- (c) Includes interest payments on our variable rate Term Loan through February 22, 2007, the date of the Term Loan repayment in conjunction with our new credit agreement.
- (d) Assumes annual pension fund contributions equal to the contribution amount anticipated in 2007.

### **Stockholders Equity**

Our book value per common share was \$9.18 at December 31, 2006, compared to \$6.86 at December 31, 2005, and \$6.34 at December 31, 2004. The major factors impacting stockholders' equity during the three year period were the net income recorded in all three years; the funding of the redemption of the \$21.25 Preferred Stock in May 2006; the funding of the settlement of the \$21.25 Preferred Stock lawsuit in November 2005, including the reversal of dividends (\$2.3 million) previously accrued related to the preferred stock purchased; preferred stock dividends accrued; the annual amortization of restricted stock compensation expense; and common stock options and stock purchase warrants exercised. Also, we were required to adjust our pension liability by a decrease of \$5.9 million in 2006 and increases of \$0.6 million in 2005, \$5.0 million in 2004 and \$24.0 million in prior years, with the offset to accumulated other comprehensive loss, in accordance with SFAS No. 87, "Employers Accounting for Pensions", which resulted in an aggregate \$23.7 million accumulated other comprehensive loss reduction in stockholders' equity at December 31, 2006. (See Note 7 of Notes to Consolidated Financial Statements.) Adjustments to the amount of this additional minimum pension liability will be recorded in future years based upon periodic re-evaluation of the funded status of our pension plans.

39

### **Dividends**

#### **Common Stock**

There were no cash dividends declared or paid on our outstanding common stock during the three years ended December 31, 2006.

#### **\$21.25 Preferred Stock**

In November 2004, an agreement was reached to settle a class action lawsuit filed by the holders of our \$21.25 Preferred Stock. Under the terms of the settlement, effective November 2, 2005, we purchased all of the 374,185 participating Depositary Shares that were submitted. As a result of this transaction, approximately \$8.0 million of previously accrued and unpaid dividends was reversed and approximately \$2.3 million of that amount of previously accrued and unpaid dividends was restored to additional paid-in capital in the Consolidated Balance Sheets. On May 17, 2006, we redeemed all remaining outstanding Depositary Shares 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. As a result of the redemption, the holders of Depositary Shares were not eligible to elect directors at our 2006 Annual Meeting of Stockholders.

## Related Party Transactions

We are party to an agreement with Tutor-Saliba Corporation, or Tutor-Saliba, a construction company based in California, and Ronald N. Tutor, Chief Executive Officer and sole stockholder of Tutor-Saliba, to provide certain management services. Tutor-Saliba participated in joint ventures with us before the agreement and continues to participate in joint ventures with us after the agreement. Our share of revenue from these joint ventures amounted to \$41.4 million, \$39.2 million and \$37.7 million in 2006, 2005 and 2004, respectively. Tutor-Saliba owned approximately 11.4% of our outstanding Common Stock as of December 31, 2006. Mr. Tutor has been our Chairman and Chief Executive Officer since March 2000.

We participate in joint ventures with O&G Industries, a Connecticut-based construction company of which Raymond R. Oneglia is the Vice Chairman and a major shareholder. O&G Industries owned approximately 6.2% of our outstanding Common Stock as of December 31, 2006 and Mr. Oneglia is a member of our Board of Directors, including being a member of the Audit Committee, Corporate Governance and Nominating Committee, and Chairman of the Compensation Committee of our Board of Directors. Our share of revenues from these joint ventures amounted to \$37.9 million, \$38.4 million and \$34.7 million in 2006, 2005 and 2004, respectively.

For details of compensation to Mr. Tutor, arrangements with Tutor-Saliba and O&G Industries, and other information on related party transactions, see Note 12 of Notes to Consolidated Financial Statements.

## New Accounting Pronouncements

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. Among other things, 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. 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.

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

40

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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. We adopted the provisions of SFAS No. 158 as of December 31, 2006, as required. Since we had recognized the underfunded status of our defined benefit pension plan in previous years in accordance with SFAS No. 87, Employer's Accounting for Pensions, and since our defined benefit pension plan was frozen in 2004 such that the projected benefit obligation equals the accumulated benefit obligation, the adoption of SFAS No. 158 did not have a significant impact 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 did not, and will not, have an impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS No. 157) which clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. SFAS No. 157 applies under other accounting pronouncements that currently require or permit fair value measurements. SFAS No. 157 is effective for us beginning January 1, 2008, and we will apply the provisions of SFAS No. 157 prospectively as of that date. We are in the process of determining the impact, if any, the adoption of SFAS No. 157 may have on our consolidated financial statements and related disclosures when it become effective in 2008.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, (SAB 108). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors in the financial statements by considering the impact of both the current year and the cumulative error, if applicable. SAB 108 prescribes two approaches that must be used to evaluate unadjusted errors and requires the financial statements to be adjusted if either approach results in quantifying an error as material. We adopted the provisions of SAB 108 as of December 31, 2006, as required. The adoption of SAB 108 did not have an impact on our consolidated financial statements.

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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. We are required to adopt FIN 48 as of January 1, 2007. 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. This is different than the accounting practice that we currently follow, which is to recognize the best estimate of the impact of a tax position only when the position is probable of being sustained on audit based solely on the technical merits of the position. The term probable is consistent with the use of the term in SFAS No. 5 Accounting for Contingencies, to mean that the future event or events are likely to occur. See Note 5 of Notes to Consolidated Financial Statements for further discussion on our review of this recently issued pronouncement.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk for changes in interest rates relates primarily to borrowings under our credit agreement (see Note 4 of Notes to Consolidated Financial Statements), and our short-term investment portfolio. During 2006, we did not borrow under our revolving credit facility and we had an average balance of \$25.5 million outstanding on a \$30 million term loan, which was repaid in February, 2007 in conjunction with the establishment of our increased credit facility.

In addition, we had approximately \$204.0 million of short-term investments classified as cash equivalents as of December 31, 2006.

Our revolving credit agreement is available for us to borrow, when needed, for general corporate purposes,

41

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including working capital requirements and capital expenditures. Borrowings under our credit agreement bear interest at the applicable LIBOR or base rate, as defined, and therefore we are subject to fluctuations in interest rates. Based on our average effective borrowing rate and our average outstanding term loan balance in 2006, a change of 1% (or 100 basis points) in our effective borrowing rate would result in an insignificant increase or decrease in net income and cash flow.

Our short-term investment portfolio consists of highly liquid instruments with maturities of three months or less, all classified as cash and cash equivalents in the accompanying Consolidated Balance Sheets.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements, and Supplementary Schedules are set forth in Item 15 in this report and are hereby incorporated in this Item 8 by reference.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure 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.

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*Changes in Internal Control* - There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

*Management's Report On Internal Control Over Financial Reporting* - Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management assessed our internal control over financial reporting as of

42

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December 31, 2006. In making this assessment, management utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control - Integrated Framework*. Based on this assessment, management concluded that, as of December 31, 2006, our internal control over financial reporting is effective based on those criteria.

Deloitte & Touche LLP, the independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of our internal control over financial reporting. Such attestation, which expresses unqualified opinions on management's assessment and on the effectiveness of our internal controls over financial reporting as of December 31, 2006, is included below in this Item 9A under the heading *Report of Independent Registered Public Accounting Firm*.

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Perini Corporation  
Framingham, Massachusetts

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*, that Perini Corporation and subsidiaries (collectively, the *Company*) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The *Company's* management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the *Company's* internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A *company's* internal control over financial reporting is a process designed by, or under the supervision of, the *company's* principal executive and principal financial officers, or persons performing similar functions, and effected by the *company's* board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A *company's* internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the *company*; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the *company* are being made only in accordance with authorizations of management and directors of the *company*; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the *company's* assets that could have a material effect on the financial statements.



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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial

43

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reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated March 7, 2007 expressed an unqualified opinion on those financial statements and includes an explanatory paragraph concerning the Company's adoption of new accounting principles in 2006.

/s/Deloitte & Touche LLP

Boston, Massachusetts  
March 7, 2007

### **ITEM 9B. OTHER INFORMATION**

None.

44

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## **PART III.**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information relating to our directors is set forth in the sections entitled "Election of Directors" and "Corporate Governance" in the definitive proxy statement in connection with our Annual Meeting of Stockholders to be held on May 17, 2007 (the "Proxy Statement"), which sections are incorporated herein by reference. Information relating to our executive officers is set forth in Part I of this report under the caption "Executive Officers of the Registrant" and is hereby incorporated herein by reference.

We are also required under Item 405 of Regulation S-K to provide information concerning delinquent filers of reports under Section 16 of the Securities and Exchange Act of 1934, as amended. This information is listed under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year. This information is incorporated herein by reference.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information appearing under the captions "Compensation Discussion and Analysis" and "Compensation Committee Report" in the Proxy Statement is hereby incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information appearing under the caption Ownership of Common Stock By Directors, Executive Officers and Principal Shareholders in the Proxy Statement is hereby incorporated herein by reference.

The information required by Item 201(d) of Regulation S-K is set forth under the caption Executive Officers Equity Compensation Plan Information in the Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information appearing under the captions Certain Transactions and Director Independence in the Proxy Statement is hereby incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information appearing under the caption The Audit Committee Report Fees Paid to Audit Firm in the Proxy Statement is hereby incorporated herein by reference.

45

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**PART IV.**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**PERINI CORPORATION AND SUBSIDIARIES**

- (a)1. The following consolidated financial statements and supplementary financial information of this report:

**Consolidated Financial Statements of the Registrant**

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

- (a)2. All consolidated financial statement schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements or in the Notes thereto.
- (a)3. Exhibits

The exhibits which are filed with this report or which are incorporated herein by reference are listed in the Exhibit Index which appears on pages 84 through 88.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Perini Corporation**  
(Registrant)

Dated: March 7, 2007

By: /s/Robert Band  
Robert Band  
President and Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>
(i) Principal Executive Officer Ronald N. Tutor	Chairman and Chief Executive Officer
By: <u>/s/Ronald N. Tutor</u> Ronald N. Tutor	
(ii) Principal Financial Officer Michael E. Ciskey	Vice President and Chief Financial Officer
By: <u>/s/Michael E. Ciskey</u> Michael E. Ciskey	
(iii) Principal Accounting Officer Peter J. Martinkus	Vice President and Controller
By: <u>/s/Peter J. Martinkus</u> Peter J. Martinkus	
(iv) Directors	
Ronald N. Tutor	)
Peter Arkley	)
Robert Band	)
Willard W. Brittain, Jr.	)
James A. Cummings	) <u>/s/Robert Band</u>
Robert A. Kennedy	) Robert Band
Michael R. Klein	) Attorney in Fact
Robert L. Miller	)
Raymond R. Oneglia	) Dated: March 7, 2007

**Consolidated Balance Sheets**  
December 31, 2006 and 2005

(In thousands, except share data)

**SIGNATURES**

**Assets**

CURRENT ASSETS:

Cash, including cash equivalents of \$203,920 and \$120,434 (Note 1)  
Accounts receivable, including retainage of \$235,006 and \$173,828  
Unbilled work (Note 1)  
Deferred tax asset (Note 5)  
Other current assets

Total current assets

PROPERTY AND EQUIPMENT, at cost (Note 1):

Land  
Buildings and improvements  
Construction equipment  
Other equipment

Less - Accumulated depreciation

Total property and equipment, net

OTHER ASSETS:

Goodwill (Notes 1 and 3)  
Other (Note 6)

Total other assets

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

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**Liabilities and Stockholders' Equity**

CURRENT LIABILITIES:

Current maturities of long-term debt (Note 4)  
Accounts payable, including retainage of \$165,048 and \$120,585  
Deferred contract revenue (Note 1)  
Accrued expenses

Total current liabilities

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LONG-TERM DEBT, less current maturities included above (Note 4)

OTHER LONG-TERM LIABILITIES (Notes 6, 7 and 8)

CONTINGENCIES AND COMMITMENTS (Note 2)

STOCKHOLDERS' EQUITY (Notes 1, 7, 8 and 9):

Preferred stock, \$1 par value -

Authorized - 1,000,000 shares

Designated - 100,000 shares

Issued and outstanding - zero shares and 18,593 shares of \$21.25 convertible exchangeable preferred stock (\$0 and \$4,648 aggregate liquidation preference)

Series A junior participating preferred stock, \$1 par value -

Designated - 200,000 shares

Issued - none

Stock purchase warrants

Common stock, \$1 par value -

Authorized - 40,000,000 shares

Issued and outstanding - 26,554,087 shares and 26,037,656 shares

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

Total stockholders' equity

49

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### Consolidated Statements of Income

For the Years Ended December 31, 2006, 2005 and 2004

(In thousands, except per share data)

	2006
Revenues (Note 11)	\$ 3,042,839
Cost of Operations	2,873,444
Gross Profit	\$ 169,395
General and Administrative Expenses	98,516
INCOME FROM CONSTRUCTION OPERATIONS (Note 11)	\$ 70,879
Other (Income) Expense, Net (Note 6)	(2,581)
Interest Expense (Note 4)	3,771
Income before Income Taxes	\$ 69,689

SIGNATURES

45

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Provision for Income Taxes (Notes 1 and 5)	(28,153)
	-----
<b>NET INCOME</b>	<b>\$ 41,536</b>
	=====
Less: Accrued Dividends on \$21.25 Preferred Stock (Note 8)	(166)
Less: Excess of fair value over carrying value upon redemption of \$21.25 Preferred Stock (Note 8)	(253)
Plus: Reversal of Accrued Dividends on \$21.25 Preferred Stock based on settlement of lawsuit (Note 8)	-
	-----
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS	\$ 41,117
	=====
<b>BASIC EARNINGS PER COMMON SHARE (Note 1)</b>	<b>\$ 1.56</b>
	=====
<b>DILUTED EARNINGS PER COMMON SHARE (Note 1)</b>	<b>\$ 1.54</b>
	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (Note 1):	
BASIC	26,308
Effect of Dilutive Stock Options, Warrants and Restricted Stock Units Outstanding	450
	-----
DILUTED	26,758
	-----

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

50

**Consolidated Statements of Stockholders Equity**  
For the Years Ended December 31, 2006, 2005 and 2004

(In thousands)

	Preferred Stock	Stock Purchase Warrants	Common Stock	Additio Paid- Capit
<b>Balance - December 31, 2003</b>	<b>\$ 56</b>	<b>\$ 2,233</b>	<b>\$ 22,946</b>	<b>\$ 90</b>
Net Income	-	-	-	
Other comprehensive loss:				
Minimum pension liability (Note 7)	-	-	-	
Total comprehensive income				
Preferred Stock dividends accrued (\$21.25 per share*)	-	-	-	

SIGNATURES

46

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Common Stock options and stock purchase warrants exercised	-	(1,268)	2,348	10
Income tax benefit attributable to nonqualified stock options and warrants exercised	-	-	-	8
Restricted stock compensation expense (Note 9)	-	-	-	
Reclassification of treasury stock	-	-	(61)	
Reversal of estimated cost of secondary stock offering	-	-	-	
<b>Balance - December 31, 2004</b>	<b>\$ 56</b>	<b>\$ 965</b>	<b>\$ 25,233</b>	<b>\$ 110</b>
Net Income	-	-	-	
Other comprehensive loss:				
Minimum pension liability (Note 7)	-	-	-	
Total comprehensive income				
Preferred Stock dividends accrued (\$21.25 per share*)	-	-	-	
Common Stock options and stock purchase warrants exercised	-	(504)	291	1
Income tax benefit attributable to nonqualified stock options and warrants exercised	-	-	-	1
Restricted stock compensation expense (Note 9)	-	-	-	3
Issuance of Common Stock	-	-	165	
Reacquisition of Common Stock	-	-	(24)	
Settlement of Preferred Stock lawsuit	(37)	-	373	
<b>Balance - December 31, 2005</b>	<b>\$ 19</b>	<b>\$ 461</b>	<b>\$ 26,038</b>	<b>\$ 116</b>

51

**Consolidated Statements of Stockholders Equity (continued)**

For the Years Ended December 31, 2006, 2005 and 2004

(In thousands)

	Preferred Stock	Stock Purchase Warrants	Common Stock	Addition Paid-Capital
<b>Balance - December 31, 2005</b>	<b>\$ 19</b>	<b>\$ 461</b>	<b>\$ 26,038</b>	<b>\$ 116</b>
Net Income	-	-	-	

SIGNATURES

47

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Other comprehensive income:				
Defined benefit pension plans (Note 7)	-	-	-	
Total comprehensive income				
Preferred Stock dividends accrued and paid (\$8.98 per share**)	-	-	-	
Common Stock options exercised	-	-	229	
Income tax benefit attributable to stock-based compensation	-	-	-	2
Restricted stock compensation expense (Note 9)	-	-	-	17
Redemption of Preferred Stock (Note 8)	(19)	-	-	3
Issuance of Common Stock, net	-	-	287	
<hr/>				
<b>Balance - December 31, 2006</b>	<b>\$ -</b>	<b>\$ 461</b>	<b>\$ 26,554</b>	<b>\$ 139</b>
<hr/>				

\*Equivalent to \$2.125 per Depositary Share (see Note 8).

\*\*Equivalent to \$0.898 per Depositary Share (see Note 8).

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

52

**Consolidated Statements of Cash Flows**

For the Years Ended December 31, 2006, 2005 and 2004

(In thousands)

	<b>2006</b>
	<hr/>
<b>Cash Flows from Operating Activities:</b>	
Net income	\$ 41,536
Adjustments to reconcile net income to net cash provided from operating activities -	
Depreciation	7,549
Amortization of deferred expenses and intangible assets	2,378
Restricted stock compensation expense	17,105
Income tax benefit from stock-based compensation	-
Deferred income taxes	15,273
Loss (gain) on land held for sale, net	394
Gain on sale of property and equipment	(552)
Loss on sale of available-for-sale securities	-
Increase in other long-term liabilities	1,084
Cash provided from (used by) changes in other components of working capital:	
(Increase) decrease in:	
Accounts receivable	(211,254)
Unbilled work	738
Other current assets	10,024

SIGNATURES

48



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Increase (decrease) in:	
Accounts payable	174,525
Deferred contract revenue	72,219
Accrued expenses	(14,113)

**NET CASH PROVIDED FROM OPERATING ACTIVITIES** **\$116,906**

**Cash Flows from Investing Activities:**

Acquisition of property and equipment	\$(21,526)
Proceeds from sale of property and equipment	3,531
Acquisition of Cherry Hill Construction, Inc., net of cash balance acquired	-
Acquisition of Rudolph and Sletten, Inc., net of cash balance acquired	-
Proceeds from land held for sale, net	(302)
Proceeds from sale of available-for-sale securities	647
Investment in other activities	(345)

**NET CASH USED BY INVESTING ACTIVITIES** **\$ (17,995)**

53

**Consolidated Statements of Cash Flows (continued)**

For the Years Ended December 31, 2006, 2005 and 2004

(In thousands)

	<u>2006</u>
<b>Cash Flows from Financing Activities:</b>	
Proceeds from long-term debt	\$ 11,486
Reduction of long-term debt	(18,994)
Redemption of \$21.25 Preferred Stock, including payment of accrued dividends	(8,842)
Proceeds from exercise of common stock options and stock purchase warrants	1,076
Income tax benefit from stock-based compensation	2,423
Issuance of common stock, net	(404)
Purchase of preferred stock pursuant to settlement of lawsuit	-
Expenditure for stock registration	-
	-----
<b>NET CASH PROVIDED FROM (USED BY) FINANCING ACTIVITIES</b>	<b>\$ (13,255)</b>
	-----
<b>Net Increase in Cash and Cash Equivalents</b>	<b>\$ 85,656</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>139,848</b>
	-----
<b>Cash and Cash Equivalents at End of Year (Note 1(j))</b>	<b>\$ 225,504</b>
	=====

**Supplemental Disclosure of Cash Paid During the Year For:**

Interest	\$ 3,923
	=====

Income tax payments	\$ 3,440
	=====

**Supplemental Disclosure of Noncash Transactions:**

Preferred stock exchanged for common stock pursuant to settlement of lawsuit	\$ -
	=====

Common stock issued for services	\$ 7,396
	=====

Preferred stock dividends accrued but not paid	\$ -
	=====

Reversal of preferred stock dividends previously accrued but no longer required (Note 8)	\$ -
	=====

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

54

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004

**[1] Summary of Significant Accounting Policies****(a) Nature of Business**

Perini Corporation was incorporated in 1918 as a successor to businesses which had been engaged in providing construction services since 1894. Perini Corporation and its wholly owned subsidiaries (the Company) provide diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. The Company's construction business is conducted through three basic segments or operations: building, civil and management services. The Company offers general contracting, pre-construction planning and comprehensive project management services, including the planning and scheduling of the manpower, equipment, materials and subcontractors required for the timely completion of a project in accordance with the terms and specifications contained in a construction contract. The Company also offers self-performed construction services, including site work, concrete forming and placement and steel erection. The Company provides these services by using traditional general contracting arrangements, such as fixed price, guaranteed maximum price and cost plus fee contracts and, to a lesser extent, construction management or design-build contracting arrangements.

In an effort to limit its financial and/or operational risk on certain large or complex projects, the Company participates in construction joint ventures, often as the sponsor or manager of the project, for the purpose of bidding and, if awarded, providing the agreed upon construction services. Each participant usually agrees in advance to provide a predetermined percentage of capital, as required, and to share in the same percentage of profit or loss of the project.

**(b) Principles of Consolidation**

The consolidated financial statements include the accounts of Perini Corporation and its wholly owned subsidiaries. The Company's interests in construction joint ventures are accounted for using the proportionate consolidation method whereby the Company's proportionate share of each joint venture's assets, liabilities, revenues and cost of operations are included in the appropriate classifications in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

**(c) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's construction business involves making significant estimates and assumptions in the normal course of business relating to its contracts and joint venture contracts due to, among other things, the one-of-a-kind nature of most of its projects, the long-term duration of its contract cycle and the type of contract utilized. The most significant estimates with regard to these financial statements relate to the estimating of total forecasted construction contract revenues, costs and profits in accordance with accounting for long-term contracts (see Note 1(d) below) and estimating potential

liabilities in conjunction with certain contingencies, including the outcome of pending or future litigation, arbitration or other dispute resolution proceedings relating to contract claims (see Note 2 below). Actual results could differ in the near term from these estimates and such differences could be material.

**(d) Method of Accounting for Contracts**

Revenues and profits from the Company's contracts and construction joint venture contracts are generally recognized by applying percentages of completion for the period to the total estimated profits for the respective contracts. Percentage of completion is determined by relating the actual cost of the work performed to date to the current estimated total cost of the respective contracts. However, on construction management contracts, profit is generally recognized in accordance with the contract terms, usually on the as-billed method, which is generally consistent with the level of effort incurred over the contract period. When the estimate on a contract indicates a loss, the Company's policy is to record the entire loss during the accounting period in which it is estimated. In the ordinary course of business, at a minimum on a quarterly basis, the Company prepares updated estimates of the total forecasted revenue, cost and profit or loss for each contract. The cumulative effect of revisions in estimates of the total forecasted revenue and costs, including unapproved change orders and claims, during the course of the work is reflected in the accounting period in which the facts that caused the revision become known. The financial impact of these revisions to any one contract is a function of

55

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[1] Summary of Significant Accounting Policies (continued)**

**(d) Method of Accounting for Contracts (continued)**

both the amount of the revision and the percentage of completion of the contract. An amount equal to the costs incurred which are attributable to unapproved change orders and claims is included in the total estimated revenue when realization is probable. Profit from unapproved change orders and claims is recorded in the period such amounts are resolved.

In accordance with normal practice in the construction industry, the Company includes in current assets and current liabilities amounts related to construction contracts realizable and payable over a period in excess of one year. Deferred contract revenue represents the excess of billings to date over the amount of contract costs and profits (or contract revenue) recognized to date on the percentage of completion accounting method on certain contracts. Unbilled work represents the excess of contract costs and profits (or contract revenue) recognized to date on the percentage of completion accounting method over billings to date on the remaining contracts. Unbilled work results when (1) the appropriate contract revenue amount has been recognized in accordance with the percentage of completion accounting method, but a portion of the revenue recorded cannot be billed currently due to the billing terms defined in the contract and/or (2) costs, recorded at estimated realizable value, related to unapproved change orders or claims are incurred. Unbilled work related to the Company's contracts and joint venture contracts at December 31, 2006 and 2005, consisted of the following (in thousands):

	2006	2005
Unbilled costs and profits incurred to date*	\$ 33,011	\$ 30,108
Unapproved change orders	8,369	7,067
Claims	54,961	59,904
	-----	-----
	\$ 96,341	\$ 97,079
	=====	=====

\* Represents the excess of contract costs and profits recognized to date on the percentage of completion accounting method over billings to date on certain contracts.

Of the balance of "Unapproved change orders" and "Claims" included above in unbilled work at December 31, 2006 and December 31, 2005, approximately \$36.9 million and \$36.7 million, respectively, are amounts subject to pending litigation or dispute resolution proceedings as described in Item 3 - "Legal Proceedings" and Note 2, "Contingencies and Commitments". These amounts are management's estimate of the probable recovery from the disputed claims considering such factors as evaluation of entitlement, settlements reached to date and experience with the customer. In the event that future facts and circumstances, including the resolution of disputed claims, cause a reduction in the aggregate amount of the estimated probable recovery from the disputed claims, the amount of such reduction will be recorded against future earnings in the relevant period.

The prerequisite for billing "Unbilled costs and profits incurred to date" is provided in the defined billing terms of each of the applicable contracts. The prerequisite for billing "Unapproved change orders" or "Claims" is the final resolution and agreement between the parties. The amount of unbilled work at December 31, 2006 estimated by management to be collected beyond one year is approximately \$48.2 million.

**(e) Property and Equipment**

Land, buildings and improvements, construction and computer-related equipment and other equipment are recorded at cost. Depreciation is calculated primarily using the straight-line method for all classifications of depreciable property. Construction equipment is depreciated over estimated useful lives ranging from five to twenty years with

56

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[1] Summary of Significant Accounting Policies (continued)**

**(e) Property and Equipment (continued)**

estimated salvage values ranging from ten to forty percent of the acquisition cost.

The remaining depreciable property is depreciated over estimated useful lives ranging from three to forty years with no provision for estimated salvage values.

**(f) Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is evaluated by comparing the carrying value of the assets to the undiscounted associated cash flows. When this comparison indicates that the carrying value of the asset is greater than the undiscounted cash flows, a loss is recognized for the difference between the carrying value and estimated fair value. Fair value is determined based either on market quotes or appropriate valuation techniques.

**(g) Goodwill**

Goodwill included in the accompanying Consolidated Balance Sheets represents the excess of the costs of subsidiaries acquired over the fair value of their net assets as of the dates of acquisition as summarized in the following table (in thousands):

	2006	2005
	-----	-----
Perini Building Company, Inc.	\$ 1,017	\$ 1,017
James A. Cummings, Inc.	11,661	11,661
Rudolph and Sletten, Inc.	13,590	14,028
	-----	-----
Total	\$ 26,268	\$ 26,706
	=====	=====

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", the Company annually assesses the potential amount of goodwill impairment by applying a fair value test as of December 31. Based on the impairment tests completed for 2006, 2005 and 2004, the Company concluded that goodwill was not impaired.

**(h) Income Taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". (See Note 5). Deferred income tax assets and liabilities are recognized for the effects of temporary differences between the financial statement carrying amounts and the income tax basis of assets and liabilities using tax rates expected to be in effect when such differences reverse. In addition, future tax benefits, such as non-deductible accrued expenses, are recognized to the extent such benefits are more likely than not to be realized as an economic benefit in the form of a reduction of income taxes in future years.

**(i) Earnings Per Common Share**

Earnings per common share amounts were calculated in accordance with SFAS No. 128, "Earnings per 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 during all years presented and (ii) the excess of the fair value of the consideration given over the carrying value upon redemption of the \$21.25 Preferred Stock in 2006, plus the reversal in 2005 of approximately \$2.3 million of previously accrued and unpaid dividends on the \$21.25 Preferred Stock no longer required (see Notes 8 and 10) 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [1] Summary of Significant Accounting Policies (continued)

#### (i) Earnings Per Common Share (continued)

There were no antidilutive stock options or stock purchase warrants at December 31, 2006, 2005 and 2004. The effect of the assumed conversion of the Company's outstanding \$21.25 Preferred Stock into Common Stock was antidilutive for all applicable years presented.

#### (j) 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 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. 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 December 31, 2006 and 2005, cash and cash equivalents consisted of the following (in thousands):

	2006	2005
	-----	-----
Corporate cash and cash equivalents (available for general corporate purposes)	\$ 189,558	\$ 99,747
Company's share of joint venture cash and cash equivalents (available only for joint venture purposes, including future distributions)	35,946	40,101
	-----	-----
	\$ 225,504	\$ 139,848
	=====	=====

#### (k) 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. 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 Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). (See Note 9.)

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [1] Summary of Significant Accounting Policies (continued)

#### [1] Summary of Significant Accounting Policies

**(l) Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these items. The carrying value of receivables, payables and other amounts arising out of normal contract activities, including retentions, which may be settled beyond one year, is estimated to approximate fair value. See Note 4 for disclosure of the fair value of long-term debt.

**(m) New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement 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 adopted the provisions of SFAS No. 158 as of December 31, 2006, as required. Since the Company had recognized the underfunded status of its defined benefit pension plan in its financial statements in previous years in accordance with SFAS No. 87, "Employers' Accounting for Pensions", and since the Company's defined benefit pension plan was frozen in 2004 such that the projected benefit obligation equals the accumulated benefit obligation, the adoption of SFAS No. 158 did not have a significant impact 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 uses the date of its fiscal year-end as its measurement date and, as a result, that new requirement did not, and will not, have an impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157") which clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. SFAS No. 157 applies under other accounting pronouncements that currently require or permit fair value measurements. SFAS No. 157 is effective for the Company beginning January 1, 2008, and the Company will apply the provisions of SFAS No. 157 prospectively as of that date. The Company is in the process of determining the impact, if any, the adoption of SFAS No. 157 may have on its consolidated financial statements and related disclosures when it become effective in 2008.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors in the financial statements by considering the impact of both the current year and the cumulative error, if applicable. SAB 108 prescribes two approaches that must be used to evaluate unadjusted errors and requires the financial statements to be adjusted if either approach results in quantifying an error as material. The Company adopted the provisions of SAB 108 as of December 31, 2006, as required. The adoption of SAB 108 did not have an impact on the Company's consolidated financial statements.

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". The Company is required to adopt FIN 48 as of January 1, 2007. 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. This is different than the accounting practice currently followed by the Company, which is to recognize the best estimate of the impact of a tax position only when the position is "probable" of being sustained on audit based solely on the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[1] Summary of Significant Accounting Policies (continued)**

**(m) New Accounting Pronouncements (continued)**

technical merits of the position. The term "probable" is consistent with the use of the term in SFAS No. 5 "Accounting for Contingencies," to mean that "the future event or events are likely to occur." See Note 5 for further discussion on the Company's review of this recently issued pronouncement.

**[2] 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 1999, LAMTA

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countered with civil claims under the California False Claims Act ("CFCA") 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 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 claim, and remanded the Joint Venture's claims against LAMTA for extra work required by LAMTA and LAMTA's counterclaim under the CFCA 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 reassigned for a new trial.

In 2006, upon remand, the trial court allowed LAMTA to amend its cross-complaint to add the District Attorney as a party in order to have a plaintiff with standing to assert a UCL claim, and allowed a UCL claim to be added. The court also ordered that individual issues of the case be tried separately.

On December 18, 2006, in the trial of the first issue, which arose out of a 1994 change order involving a Disadvantaged Business Enterprise subcontractor pass-through claim, the jury found that the Joint Venture had submitted two false claims for payment and had breached its contract with LAMTA and awarded LAMTA \$111,651 in damages. The court will treble those damages and may award penalties up to \$10,000 for each of the two claims. In addition, the court will determine whether there was one or more violations of the UCL. Each such violation may bear a penalty of up to \$10,000. Briefing on issues of penalties is scheduled to be completed in March, 2007. A final judgment with respect to these claims will not be entered until the entire case has been resolved and is subject to appeal.

On February 21, 2007, the court granted a Joint Venture motion and precluded LAMTA in future proceedings from presenting its claims that the Joint Venture breached its contract and violated the CFCA by allegedly "frontloading" the so called "B Series" contracts. The court ordered further briefing on LAMTA's UCL claim on this issue.

60

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

#### [2] Contingencies and Commitments (continued)

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

The Court has indicated that it would like the parties to resolve the entire case through mediation.

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 \$27.0 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 was 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 April, 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [2] Contingencies and Commitments (continued)

#### *(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 DRB, which consists of three construction experts chosen by the parties. To date, the DRB has issued five binding awards on PKC's claims. It has ruled that PKC is entitled to additional compensation for the first portion of 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 inefficiencies 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. PKC has taken the position that it is entitled to interest on each of the five binding DRB awards as provided in the awards. It appears that MHD will object to payment of any interest.

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. It is PKC's position that the remaining claims, which have an anticipated value of approximately \$104 million (exclusive of interest), are to be decided by the Third DRB on a binding basis. MHD disputes that the remaining claims before the Third DRB are to be decided on a binding basis. Hearings before the Third DRB began in October, 2006 and are scheduled to occur throughout the remainder of 2007.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [2] Contingencies and Commitments (continued)

#### *(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. It is the Company's understanding that lawyers for two individual Perini Civil employees also are in separate discussions with the U.S. Attorney's Office related to the investigation. On January 8, 2007, the Company was informed by the U.S. Attorney's Office that the Company meets the definition of "subject" in the United States Attorney's Manual. That definition is "a person whose conduct is within the scope of the grand jury's investigation." At the same time, the U.S. Attorney's Office also wrote to the Company that "Perini has been cooperatively engaged in discussions with this office and that we are considering a civil settlement with regard to Perini." The Company is unable to evaluate the potential impact, if any, of the investigation at this time.

### [3] Acquisitions

#### *(a) 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, for approximately \$55.5 million in cash, including \$0.2 million of other direct acquisition costs. Based in Redwood City, California, and covering the major California construction markets of Los Angeles, Silicon Valley, San Francisco and Sacramento, Rudolph & Sletten is an established building contractor and construction management company specializing in corporate campuses, healthcare, biotech, pharmaceutical and high-tech projects. The acquisition is intended to expand the Company's building construction market presence on the west coast of the United States. In addition, the Company expects to realize significant synergy from the acquisition by deploying Rudolph & Sletten's resources in regional gaming and hospitality markets in California and other locations. The acquisition was effective as of October 3, 2005 and, accordingly, Rudolph & Sletten's financial results are included in the Company's consolidated results of operations and financial position beginning October 3, 2005.

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. The following table summarizes the fair value of the assets acquired and liabilities assumed as of October 3, 2005 (in thousands):

Current assets	\$214,823
Property and equipment, net	17,625
Other long-term assets	1,758
Goodwill	13,590
Intangible assets	7,410
	-----
Total assets acquired	\$255,206
Current liabilities	(194,388)
Other long-term liabilities	(2,803)
Long-term deferred tax liabilities	(2,555)
	-----
Total Acquisition Costs	\$ 55,460
	=====

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [1] Summary of Significant Accounting Policies

**[3] Acquisitions (continued)****(a) Rudolph and Sletten, Inc. (continued)**

The \$13.6 million of "Goodwill" referred to above has been allocated to the building construction segment and is not deductible for tax purposes. Goodwill and intangible assets with an indefinite life recorded in the acquisition were tested in 2005 and 2006 and will be tested periodically in the future for impairment as required by SFAS No. 142, "Goodwill and Other Intangible Assets."

The following table identifies the intangible assets acquired and their respective amortization period. The amounts assigned to intangible assets represent the Company's estimate of the fair value of the intangible assets acquired as of October 3, 2005 and were based on an independent appraisal.

	Amount	Amortization Period
	-----	-----
	(in thousands)	
Construction contract backlog	\$ 1,840	3 years
Customer relationships	2,300	10 years
Non-compete agreements	2,400	5 years
Rudolph & Sletten trademark	850	n.a.
Construction permits and licenses	20	1 year
	-----	
Total intangible assets acquired	\$ 7,410	
	=====	

**(b) Cherry Hill Construction, Inc.**

In January 2005, the Company completed the acquisition of 100% of the outstanding capital stock of Cherry Hill Construction, Inc. ("Cherry Hill"), a privately held construction company based in Jessup, Maryland, for approximately \$22.0 million in cash. Cherry Hill is an established civil contractor operating in the mid-Atlantic and southeastern regions of the United States specializing in excavation, foundations, paving and construction of civil infrastructure. Cherry Hill's strong regional reputation for civil construction projects and its complementary client base provide a strategic fit with the Company's existing operations and extend the Company's civil construction presence into the mid-Atlantic and southeastern regions of the United States. The acquisition was effective as of January 1, 2005 and, accordingly, Cherry Hill's financial results are included in the Company's consolidated results of operations and financial position beginning January 1, 2005.

The transaction was accounted for using the purchase method of accounting as required by SFAS No. 141, "Business Combinations". The cost to acquire Cherry Hill, which consists of the \$22.0 million cash consideration referred to above and \$0.4 million of other direct acquisition costs, was less than the estimated fair value of the assets acquired less the liabilities assumed. The resulting excess of the fair value of acquired net assets over cost was generally allocated as a pro rata reduction of the estimated fair value of the non-current assets acquired in accordance with SFAS No. 141. The following table summarizes fair value of the assets acquired and liabilities assumed as of January 1, 2005 after the allocation described above (in thousands):

64

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[3] Acquisitions (continued)****(b) Cherry Hill Construction, Inc. (continued)**

Current assets	\$ 46,920
Property and equipment, net	32,155
Other long-term assets	376
Intangible assets	790
	-----
Total assets acquired	\$ 80,241
Current liabilities	(39,604)
Long-term debt	(12,167)
Long-term deferred tax liabilities	(6,023)
	-----

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Total Acquisition Costs \$ 22,447  
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The amount assigned to intangible assets primarily represents the Company's estimate of the fair value of contract backlog acquired as of January 1, 2005 and was based on an independent appraisal. The intangible assets are being amortized using the straight-line method over an approximate 2.5-year period based on the estimated durations of the contracts acquired.

**(c) Unaudited Pro Forma Results of Operations**

The acquisition of Cherry Hill was effective as of January 1, 2005 and, accordingly, the Company's 2005 results include Cherry Hill for the full year. The acquisition of Rudolph & Sletten was effective as of October 3, 2005 and, accordingly, the Company's 2005 results include Rudolph & Sletten for only the fourth quarter of 2005. The following pro forma financial information presents the results of the Company, assuming Cherry Hill and Rudolph & Sletten were acquired on January 1, 2004 (in thousands):

	Year Ended December 31,	
	2005	2004
	Pro forma (unaudited)	
Revenues	\$ 2,197,324	\$ 2,706,157
Gross Profit	\$ 96,369	\$ 144,378
Net Income	\$ 6,574	\$ 43,636
Basic earnings per common share	\$ 0.31	\$ 1.79
Diluted earnings per common share	\$ 0.30	\$ 1.69

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) adjustments to depreciation expense resulting from the adjustment of fixed asset bases to fair value at acquisition; (iii) additional amortization expense related to intangible assets arising from the acquisitions; and (iv) to reflect a statutory income tax rate on the pretax income of Cherry Hill and Rudolph & Sletten as well as on the applicable pro forma income adjustments made. In addition, the pro forma results include adjustments to reflect (i) the elimination of a non-recurring gain on sale of certain real estate properties by Rudolph & Sletten in 2005 that were specifically excluded from the acquisition, and (ii) 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 the operations that actually would have resulted had the acquisitions been in effect on January 1, 2004 or of future results.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[4] Financial Commitments**

**Long-term Debt**

Long-term debt of the Company at December 31, 2006 and 2005 consisted of the following (in thousands):

Borrowing under revolving credit facility at an average rate of 6.8% in 2005 \$  
 Borrowings under term loan at an average rate of 7.2% in 2006 and 6.4% in 2005  
 Mortgage on corporate headquarters building, at a rate of 8.96%  
     payable in equal monthly installments over a ten year period, with a balloon  
     payment of approximately \$5.3 million in 2010  
 Mortgage on office building at a rate of 5.68% payable in equal monthly installments  
     over a five year period, with a balloon payment of \$1.4 million in 2008  
 Mortgage on office building at a rate of 7.16% payable in equal monthly installments  
     over a five year period, with a balloon payment of \$1.5 million in 2011

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Mortgage on office building at a rate of 7.75% payable in equal monthly installments over a five year period, with a balloon payment of \$1.8 million in 2006	
Other mortgages	
Other indebtedness, primarily equipment financing at rates ranging from 0% to 7.5%	
 Total	\$
Less - current maturities	-----
 Net long-term debt	 \$ =====

Payments required under these obligations amount to approximately \$14,607 in 2007, \$12,536 in 2008, \$8,661 in 2009, \$11,383 in 2010, and \$1,555 in 2011.

On February 22, 2007, the Company entered into an Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, and three participant lenders (the Amended Agreement). The Amended Agreement amends and restates in its entirety the Company's previously existing credit agreement dated as of October 14, 2005, as amended through April 13, 2006 (the Prior Agreement).

The Amended Agreement provides for a secured revolving credit facility (the Revolving Facility) of up to \$125 million, which can be expanded to \$175 million in the future with the consent of the lenders. This represents an increased borrowing capacity from the Prior Agreement, which provided for a revolving credit facility of \$50 million, plus a term loan in the original amount of \$30 million, of which \$22.5 million was outstanding at December 31, 2006. The term loan was paid in full on February 22, 2007 in conjunction with the closing of the Amended Agreement.

The Company can choose from interest rate alternatives including a prime-based rate, as well as Eurodollar rate-based options. While the Amended Agreement also provides for an increase in the aggregate amount of letters of credit that may be issued under the agreement from \$15 million to \$50 million, any outstanding letters of credit reduce availability under the Revolving Facility on a dollar-for-dollar basis. The termination date of the Revolving Facility was extended from June 30, 2008 to February 22, 2012.

The Amended Agreement requires, among other things, maintaining minimum net worth and fixed charge coverage and asset coverage ratios as well as a maximum leverage ratio. The Amended Agreement also includes operational covenants customary for facilities of this type, including limitations on incurring additional indebtedness and liens, as well as restrictions on types of investments and the purchase and sale of assets outside of the normal course of

66

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

#### [4] Financial Commitments (continued)

business. The Company's obligations under the Amended Agreement are guaranteed by substantially all of the Company's current and future subsidiaries, and secured by substantially all of the Company's and its subsidiaries' assets. In contrast to the Prior Agreement, the Amended Agreement does not require a pledge of the subsidiaries' capital stock.

The fair value of the balance outstanding under the Amended Agreement equals the carrying value of zero. For fixed rate debt, fair value is determined based on discounted cash flows for the debt at the Company's current incremental borrowing rate for similar types of debt. The estimated fair value of fixed rate debt at December 31, 2006 and 2005 is \$26.5 million and \$28.0 million, respectively, compared to the carrying amount of \$26.2 million and \$27.75 million, respectively.

#### Leases

The Company leases certain construction equipment, vehicles and office space under non-cancelable operating leases. Future minimum rent payments under non-cancelable operating leases as of December 31, 2006 are as follows (in thousands):

Amount  
-----

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2007	\$ 6,256
2008	4,595
2009	3,214
2010	1,691
2011	830
Thereafter	3,165
	-----
Subtotal	\$ 19,751
Less - Sublease rental agreements	(415)
	-----
Total	\$ 19,336
	=====

Rental expense under long-term operating leases of construction equipment, vehicles and office space was \$7,191 in 2006, \$10,531 in 2005 and \$4,398 in 2004.

Although not material to the Company's consolidated financial position or results of operations, the Company also leases certain construction equipment under capital lease arrangements from time to time. Amounts relating to capital leases are included in the accompanying Consolidated Balance Sheets under "Construction Equipment" and "Long-term Debt".

67

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[5] Income Taxes**

The provision (credit) for income taxes is comprised of the following (in thousands):

	Federal	State	Total
	-----	-----	-----
<b>2006</b>			
Current	\$ 11,564	\$ 1,316	\$ 12,880
Deferred	13,931	1,342	15,273
	-----	-----	-----
	\$ 25,495	\$ 2,658	\$ 28,153
	=====	=====	=====
<b>2005</b>			
Current	\$ 1,417	\$ 3,594	\$ 5,011
Deferred	781	(2,920)	(2,139)
	-----	-----	-----
	\$ 2,198	\$ 674	\$ 2,872
	=====	=====	=====
<b>2004</b>			
Current	\$ 360	\$ 650	\$ 1,010
Deferred	7,654	255	7,909
	-----	-----	-----
	\$ 8,014	\$ 905	\$ 8,919
	=====	=====	=====

The table below reconciles the difference between the statutory federal income tax rate and the effective rate provided for income before income taxes in the Consolidated Statements of Income.

	2006	2005	2004
	-----	-----	-----
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.9	(0.2)	2.0

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Secondary offering costs	-	2.9	-
Reversal of valuation allowance	-	-	(17.6)
Officer's compensation	3.2	4.8	-
Other	(0.7)	(1.0)	0.5
	-----	-----	-----
Effective tax rate	40.4%	41.5%	19.9%
	=====	=====	=====

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31, 2006 and 2005 (in thousands):

	2006	2005
	-----	-----
<u>Deferred Tax Assets</u>		
Contract losses	\$ 1,432	\$ 16,156
Timing of expense recognition	10,358	11,143
Net operating loss carryforwards	-	490
Alternative minimum tax credit carryforwards	-	4,265
Other, net	71	361
	-----	-----
	\$ 11,861	\$ 32,415
Valuation allowance for deferred tax assets	-	(490)
	-----	-----
Deferred tax assets	\$ 11,861	\$ 31,925
	-----	-----

68

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[5] Income Taxes (continued)**

<u>Deferred Tax Liabilities</u>		
Joint ventures - construction	\$ (5,136)	\$ (6,858)
Fixed assets, due primarily to purchase accounting	(8,226)	(8,546)
Intangible assets, due primarily to purchase accounting	(2,647)	(2,903)
Other	(656)	(683)
	-----	-----
Deferred tax liabilities	\$ (16,665)	\$ (18,990)
	-----	-----
Net deferred tax asset (liability)	\$ (4,804)	\$ 12,935
	=====	=====

The net deferred tax asset (liability) as of December 31, 2006 and 2005 is classified in the Consolidated Balance Sheets based on when the future benefit (expense) is expected to be realized as follows (in thousands):

	2006	2005
	-----	-----
Short-term deferred tax asset (liability)	\$ (852)	\$ 12,888
Long-term deferred tax asset (liability)	(3,952)	47
	-----	-----
	\$ (4,804)	\$ 12,935
	=====	=====

A valuation allowance is provided when necessary to reduce the deferred tax assets to a level which, more likely than not, will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. The deferred tax assets reflect management's estimate of the amount which would, more likely than not, be

realized from future taxable income.

The Company has evaluated the available evidence about both asserted and unasserted income tax contingencies in its income tax returns filed with the Internal Revenue Service, state, local and foreign tax authorities. The Company has recorded \$1.9 million and \$1.7 million as of December 31, 2006 and 2005, respectively, for income tax contingencies which represent its estimates of the amount that is probable and estimable of being payable, if successfully challenged by such tax authorities, under the provisions of SFAS No. 5, "Accounting for Contingencies". The Company has not received either written or oral tax opinions that are contrary to its assessment of the recorded income tax contingency accruals.

In June 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. FIN 48 requires that the cumulative effect of its adoption be recorded as a change to opening retained earnings in the first quarter of 2007. The Company expects that the adoption of FIN 48 will not have a significant impact on the Company's consolidated financial position, results of operations and effective tax rate and believes that any adjustment recorded to reduce opening retained earnings will be immaterial.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [6] Other Assets, Other Long-term Liabilities and Other (Income) Expense, Net

Other Assets, Other Long-term Liabilities and Other (Income) Expense, Net consist of the following (in thousands) for the periods presented:

#### *Other Assets*

	2006	2005
	-----	-----
Land held for sale (Note 13)	\$ 974	\$ 816
Deferred expenses	749	957
Other investments	529	1,334
Deferred tax asset	-	47
Intangible assets (Note 3)	5,408	6,693
	-----	-----
	\$ 7,660	\$ 9,847
	=====	=====

#### *Other Long-term Liabilities*

	2006	2005
	-----	-----
Employee benefit related liabilities	\$ 2,186	\$ 2,014
Minimum pension liability adjustment (Note 7)	13,298	29,583
Subcontractor insurance program	12,737	1,078
Deferred tax liability	3,952	-
Deferred lease incentive	1,524	1,701
Accrued dividends on		
\$21.25 Preferred Stock (Note 8)	-	4,031
Other	-	1,150
	-----	-----
	\$ 33,697	\$ 39,557
	=====	=====

#### *Other (Income) Expense, Net*

	2006	2005	2004
	-----	-----	-----
Stock registration expense	\$ 222	\$ 576	\$ 1,
Loss (gain) from land sales, net (Note 13)	394	(1,566)	
Interest income	(4,323)	(1,040)	
Bank fees	712	597	
Miscellaneous expense, net	414	462	
	-----	-----	-----

\$ (2,581)	\$ (971)	\$ 3,
=====	=====	=====

**[7] Employee Benefit 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 plan is noncontributory and benefits are based on an employee's years of service and final average earnings, as defined. The plan provides reduced benefits for early retirement and takes into account offsets for social security benefits. All employees are vested after five years of service. The Company also has an unfunded supplemental retirement plan for certain employees whose benefits under the defined benefit pension plan were reduced because of compensation limitations under federal tax laws. In accordance with SFAS No. 132R, *Employers' Disclosures About Pensions and Other Post-Retirement Benefits*, pension disclosure as presented below includes aggregated amounts for both of the Company's plans, except where otherwise indicated.

70

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[7] Employee Benefit Plans (continued)**

Effective June 1, 2004, all benefit accruals under the Company's pension plan were frozen; however, the current vested benefits will be preserved. In accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, a one-time charge of \$0.2 million was recorded in 2004.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158)*, which requires an employer to recognize the over funded or under funded status of defined benefit and other post-retirement 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 adopted the provisions of SFAS No. 158 as of December 31, 2006, as required. Since the Company had recognized the under funded status of its defined benefit pension plan in its financial statements in previous years in accordance with SFAS No. 87, *Employers' Accounting for Pension*, and since the Company's defined benefit pension plan was frozen in 2004 such that the projected benefit obligation equals the accumulated benefit obligation, the adoption of SFAS No. 158 did not have a significant impact on the 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 did not, and will not, have an impact on the Company's consolidated financial statements.

Net pension cost for 2006, 2005 and 2004 follows (in thousands):

	2006	2005	2004
Service cost - benefits earned during the period	\$ -	\$ -	\$ -
Interest cost on projected benefit obligation	4,382	4,185	-
Expected return on plan assets	(4,247)	(4,132)	-
Amortization of prior service costs	-	-	-
Recognized actuarial loss	2,453	1,660	-
	\$ 2,588	\$ 1,713	\$ -
	=====	=====	=====
Actuarial assumptions used to determine net pension cost:			
Discount rate	5.62%	5.75%	-
Long-term rate of return on assets	7.50%	7.50%	-
Rate of increase in compensation	n.a.	n.a.	-

The expected long-term rate of return on assets assumption will remain at 7.50% for 2007. The expected long-term rate of return on assets assumption was developed considering historical and future expectations for returns for each asset class.



The target asset allocation for the Company's pension plan by asset category for 2007 and the actual asset allocation at December 31, 2006 and 2005 by asset category are as follows:

71

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[7] Employee Benefit Plans (continued)**

Asset Category	Percentage of Plan Assets at December 31,		
	Target Allocation 2007	2006	2005
Equity securities:			
Domestic	60.0%	61.4%	60.3%
International	15.0	17.9	15.9
Fixed income securities	25.0	20.1	23.2
Other	0.0	0.6	0.6
Total	100.0%	100.0%	100.0%

The target asset allocation was established to attempt to maximize returns with consideration of the long-term nature of the obligations and to reducing the level of overall market volatility through the allocation to fixed income investments. During the year, the asset allocation is reviewed for adherence to the target asset allocation and the portfolio of investments is rebalanced periodically.

Within the equity portfolio, the investments are primarily large capitalization domestic and international equities; however, the plan's asset manager may invest in equities with small and medium capitalizations. The equity assets are invested in a broadly diversified portfolio. Within the fixed income portfolio, the investments are entirely investment grade U.S. fixed income securities including both U.S. Government and U.S. Credit securities.

The Company expects to contribute \$3.2 million to its defined benefit pension plan in 2007.

The following tables provide a reconciliation of the changes in the fair value of assets in the plan and plan benefit obligations during the two year period ended December 31, 2006, and a statement of the funded status as of December 31, 2006 and 2005 (in thousands):

	2006	2005
<b>Change in Fair Value of Plan Assets</b>		
Balance at beginning of year	\$ 53,526	\$ 44,
Actual return on plan assets	7,022	3,
Company contribution	6,157	9,
Benefit payments	(4,046)	(3,
Balance at end of year	\$ 62,659	\$ 53,
<b>Change in Projected Benefit and Accumulated Obligations</b>		
Balance at beginning of year	\$ 78,638	\$ 76,
Service cost	-	-
Interest cost	4,382	4,
Actuarial (gain) loss	(663)	1,
Benefit payments	(4,046)	(3,
Balance at end of year	\$ 78,311	\$ 78,

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[7] Employee Benefit Plans (continued)**

	2006	2005
	-----	-----
<b>Funded Status</b>		
Funded status at December 31,	\$ (15,652)	\$ (25,000)
	=====	=====
Amounts recognized in Consolidated Balance Sheets consist of:		
Current assets	\$ -	
Current liabilities	(168)	
Long-term liabilities	(15,484)	
	-----	
Net amount recognized in Consolidated Balance Sheets	\$ (15,652)	
	=====	
Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:		
Accumulated loss	\$ (23,692)	\$ (29,000)
	-----	-----
Accumulated other comprehensive loss	(23,692)	(29,000)
Cumulative Company contributions in excess of net periodic benefit cost	8,040	4,000
	-----	-----
Net amount recognized in Consolidated Balance Sheets	\$ (15,652)	\$ (25,000)
	=====	=====

The estimated amount of the net accumulated loss that will be amortized from accumulated other comprehensive loss into net period benefit cost in 2007 is \$2.12 million. There was no change in accumulated other comprehensive loss as a result of the application of SFAS No. 158 in 2006.

<b>Actuarial assumptions used to determine benefit obligation:</b>	2006	2005
	-----	-----
Discount rate	5.86%	5.00%
Rate of increase in compensation	n.a.	n.a.
Measurement date	December 31	December 31

Other comprehensive loss attributable to a change in the additional minimum pension liability recognized pursuant to SFAS No. 87, "Employers' Accounting for Pensions" amounted to a decrease of \$5.9 million in 2006 and increases of \$0.6 million in 2005, \$5.0 million in 2004, and \$24.0 million in prior years. The cumulative net amount of \$23.7 million represents the excess of the projected benefit obligations of the Company's pension plans over the fair value of the plans' assets as of December 31, 2006, compared to an \$8.0 million pension asset previously recognized. The net amount of \$15.7 million is reflected as a liability as of December 31, 2006 (see above) with the offset being a reduction in stockholders' equity. Adjustments to the amount of this additional minimum pension liability will be recorded in future years, as required, based upon periodic re-evaluation of the funded status of the Company's pension plans.

The Company's plans have benefit obligations in excess of the fair value of the plans' assets. The following table provides information relating to each of the plans' benefit obligations compared to the fair value of its assets as of December 31, 2006 and 2005 (in thousands):

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[7] Employee Benefit Plans (continued)**

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	2006			2005	
	Pension Plan	Benefit Equalization Plan	Total	Pension Plan	Benefit Equalization Plan
Projected benefit obligation	\$ 75,370	\$ 2,941	\$ 78,311	\$ 75,535	\$ 3,103
Accumulated benefit obligation	\$ 75,370	\$ 2,941	\$ 78,311	\$ 75,535	\$ 3,103
Fair value of plan assets	\$ 62,659	\$ -	\$ 62,659	\$ 53,526	\$ -
Projected benefit obligation greater than Fair value of plan assets	\$ 12,711	\$ 2,941	\$ 15,652	\$ 22,009	\$ 3,103
Accumulated benefit obligation greater than Fair value of plan assets	\$ 12,711	\$ 2,941	\$ 15,652	\$ 22,009	\$ 3,103

The Company has a contributory Section 401(k) plan which covers its executive, professional, administrative and clerical employees, subject to certain specified service requirements. The 401(k) expense provision approximated \$1.7 million in 2006, \$1.8 million in 2005 and \$0.9 million in 2004. The Company's contribution is based on a non-discretionary match of employees' contributions, as defined.

The Company has an incentive compensation plan for key employees which is generally based on the Company's achievement of a certain level of profit.

The Company also contributes to various multi-employer union retirement plans under collective bargaining agreements which provide retirement benefits for substantially all of its union employees. The aggregate amounts provided in accordance with the requirements of these plans were approximately \$15.3 million in 2006, \$7.4 million in 2005 and \$4.8 million in 2004. The Multi-employer Pension Plan Amendments Act of 1980 defines certain employer obligations under multi-employer plans. Information regarding union retirement plans is not available from plan administrators to enable the Company to determine its share of any unfunded vested liabilities. Under the Employee Retirement Income Security Act, a contributor to a multi-employer plan is liable, upon termination or withdrawal from a plan, for its proportionate share of a plan's unfunded vested liability. The Company currently has no intention of withdrawing from any of the multi-employer pension plans in which it participates.

**[8] Capital Stock and Stock Purchase Warrants**

**(a) \$21.25 Convertible Exchangeable Preferred Stock ( \$21.25 Preferred Stock )**

In June 1987, the Company received net proceeds of approximately \$23,631,000 from the sale of 1,000,000 \$21.25 Depositary Convertible Exchangeable Preferred Shares (each Depositary Share representing ownership of 1/10 of a share of \$21.25 Convertible Exchangeable Preferred Stock, \$1 par value) ( Depositary Shares ) at a price of \$25 per Depositary Share. Annual dividends were \$2.125 per Depositary Share and were cumulative. Generally, the liquidation preference value was \$25 per Depositary Share plus any accumulated and unpaid dividends. In conjunction with the covenants of certain of the Company's prior credit agreements, the Company was required to

74

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[8] Capital Stock and Stock Purchase Warrants (continued)**

**(a) \$21.25 Convertible Exchangeable Preferred Stock ( \$21.25 Preferred Stock ) (continued)**

suspend the payment of quarterly dividends on its Depositary Shares until certain financial criteria were met. Dividends on the Depositary Shares had not been declared since 1995 (although they were fully accrued due to the cumulative feature of the Depositary Shares).

In June 2003, the Company completed a tender offer to purchase up to 900,000 shares, or approximately 90% of its outstanding Depositary Shares at a purchase price of \$25 per share, net to the seller in cash without interest. The tender offer which commenced on March 31, 2003, expired on June 9, 2003, at which time the Company purchased and immediately retired 440,627 Depositary Shares.

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In October 2002, certain holders of the Depositary Shares filed a lawsuit against certain directors of the Company alleging that the defendants, among other things, breached their fiduciary duties owed to the holders of the Depositary Shares. On November 30, 2004, the Company announced that the parties had reached an agreement for settlement of the lawsuit and, in September 2005, the Court gave final approval of the settlement as fair, just, reasonable and adequate.

Under the terms of the settlement, effective November 2, 2005, the Company purchased all of the 374,185 participating Depositary Shares that were submitted for \$19.00 in cash and one share of the Company's common stock for each Depositary Share for an aggregate of approximately \$7.1 million in cash and 374,185 shares of common stock. The completion of the settlement offer resulted in the Company purchasing and immediately retiring 374,185 Depositary Shares, a reduction of approximately \$1.4 million in stockholders' equity, and a reversal of approximately \$2.3 million of previously accrued and unpaid dividends relating to the purchased shares that was restored to additional paid-in capital. In addition, the \$2.3 million of previously accrued and unpaid dividends was added to net income to determine net income available for common stockholders for the purpose of computing earnings per common share for the year ended December 31, 2005.

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

### ***(b) Series A Junior Participating Preferred Stock***

Under the terms of the Company's Shareholder Rights Agreement, as amended, the Board of Directors of the Company declared a distribution on September 23, 1988 of one Preferred Stock purchase right (a "Right") for each outstanding share of Common Stock. Under certain circumstances, each Right will entitle the holder thereof to purchase from the Company one one-hundredth of a share (a "Unit") of Series A Junior Participating Cumulative Preferred Stock, \$1 par value (the "Preferred Stock"), at an exercise price of \$100 per Unit, subject to adjustment. The Rights will not be exercisable or transferable apart from the Common Stock until the earlier to occur of (i) 10 days following a public announcement that a person or group (an "Acquiring Person") has acquired 20% or more of the Company's outstanding Common Stock (the "Stock Acquisition Date"), (ii) 10 business days following the announcement by a person or group of an intention to make an offer that would result in such person or group becoming an Acquiring Person or (iii) the declaration by the Board of Directors that any person is an "Adverse Person", as defined under the Agreement. The Rights will not have any voting rights or be entitled to dividends.

Upon the occurrence of a triggering event as described above, each Right will be entitled to that number of Units of Preferred Stock of the Company having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or 50% or more of its assets or earning power is sold, each Right will be entitled to receive Common Stock of the acquiring company having a market value of two times the exercise price of the Right. Rights

75

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### **[8] Capital Stock and Stock Purchase Warrants (continued)**

#### ***(b) Series A Junior Participating Preferred Stock (continued)***

held by such a person or group causing a triggering event may be null and void. The Rights are redeemable at \$.02 per Right by the Board of Directors at any time prior to the occurrence of a triggering event.

In January 1997 and March 2000, the Board of Directors amended the Company's Shareholder Rights Agreement to (i) permit the acquisition of the Company's stock by certain investors and certain other events without triggering the distribution of the Rights; (ii) lower the threshold for the occurrence of a Stock Acquisition Date from 20% to 10%; and (iii) extend the expiration date of the Agreement from September 23, 1998 to January 21, 2007.

#### ***(c) Stock Purchase Warrants***

In connection with an amended credit agreement effective January 17, 1997, certain banks received stock purchase warrants to purchase up to 420,000 shares of the Company's Common Stock, \$1.00 par value, at a purchase price of \$8.30 per share, subject to certain anti-dilution adjustments in the event of certain distributions and other corporate events, at any time during the ten year period ending January 17, 2007. During 2005 and 2004, 94,752 warrants and 238,560 warrants, respectively, were exercised. The remaining balance of 86,688 warrants outstanding as of December 31, 2006 and 2005 was exercised on January 12, 2007.

### **[9] 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.

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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 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.

Effective May 13, 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 will 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. During 2004, restricted stock awards were granted to two executive officers of the Company. Upon the achievement of specified performance goals and/or service requirements during the period from 2004 to 2006, these restricted stock awards vested resulting in the issuance of 150,000 shares of the Company's common stock in both 2005 and 2006. The grant date fair value of the restricted stock awards granted in 2004 was \$4.7 million which was amortized

76

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

#### [9] Stock-Based Compensation (continued)

and included as a component of General and Administrative Expenses in the Consolidated Statements of Income over the vesting period as follows: \$0.6 million in 2006, \$3.3 million in 2005, and \$0.8 million in 2004.

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 the Company's executive officers and employees under the 2004 Stock Option and Incentive Plan. Of the restricted stock units granted, 150,000 vested on June 30, 2006 and 15,000 vested on December 31, 2006. Of the remaining restricted stock units granted, 765,000 generally vest equally on December 31 of 2007, 2008 and 2009, and 365,000 generally vest on December 31, 2009. Of the restricted stock units granted, 745,000 (including the 165,000 restricted stock units that vested in 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 dates of grant. The Company recorded compensation expense of \$16.5 million in 2006 related to these restricted stock units and this amount is included as a component of General and Administrative Expenses in the Consolidated Statements of Income. Accordingly, at December 31, 2006, there was \$24.2 million of unrecognized compensation expense related to the non-vested restricted stock units outstanding which, absent significant forfeitures in the future, will be recognized as expense over a weighted average period of 2.5 years.

A summary of stock-based compensation awards related to the Company's 2004 Stock Option and Incentive Plan is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Shares Available to Grant
Approved May 13, 2004	-	-	1,000,000
Granted	300,000	\$15.62	(300,000)
Outstanding at December 31, 2004	300,000	\$15.62	700,000
Issued	(150,000)	\$15.62	
Outstanding at December 31, 2005	150,000	\$15.62	700,000
Approved Plan Amendment	-		2,000,000
Granted	1,295,000	\$31.44	(1,295,000)
Issued	(300,000)	\$23.58	

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Outstanding at December 31, 2006 1,145,000 \$31.43 1,405,000  
=====  =====

The aggregate intrinsic value of the restricted stock units outstanding at December 31, 2006 is approximately \$35.2 million.

Effective May 25, 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 December 31, 2006, 2005 and 2004, 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:

77

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[9] Stock-Based Compensation (continued)**

	Number of Shares	Option Price Per Share		Shares Available to Grant
		Range	Weighted Average	
Outstanding at December 31, 2004	694,500	\$3.13 - \$6.85	\$4.45	195,634
Exercised	(240,500)	\$3.13 - \$6.85	\$4.51	-
Outstanding at December 31, 2005	454,000	\$3.13 - \$4.50	\$4.42	195,634
Exercised	(214,000)	\$4.50	\$4.50	-
Outstanding at December 31, 2006	240,000	\$3.13 - \$4.50	\$4.36	195,634

All of the remaining 5,000 options outstanding under the Company's 1982 Stock Option Plan were exercised in 2006 at an option price per share of \$5.29.

The Company had 10,000 shares of authorized but unissued Common Stock reserved for certain other stock options granted to an officer of the Company. All of the 10,000 options outstanding were exercised in 2006 at an option price per share of \$8.66.

Options outstanding at December 31, 2006 and related weighted average price and life information follows:

Remaining Life (Years)	Grant Date	Options Outstanding	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
4	03/29/00	155,000	155,000	\$ 4.50	\$ 4,770,900
4	05/25/00	45,000	45,000	\$ 3.74	1,385,100
4	09/12/00	40,000	40,000	\$ 4.50	1,231,200
Totals		240,000	240,000	\$ 4.36	\$ 7,387,200

**[10] Unaudited Quarterly Financial Data**

The following table sets forth unaudited quarterly financial data for the years ended December 31, 2006 and 2005 (in thousands, except per share amounts):

	2006 by Quarter		
	1st	2nd	3rd
Revenues	\$612,763	\$712,462	\$ 77
Gross profit	\$ 32,322	\$ 37,016	\$ 4
Net income	\$ 8,090	\$ 4,561	\$
Basic earnings per common share	\$ 0.31	\$ 0.16	\$
Diluted earnings per common share	\$ 0.30	\$ 0.16	\$

78

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[10] Unaudited Quarterly Financial Data (continued)**

	2005 by Quarter		
	1st	2nd	3rd
Revenues	\$371,553	\$378,384	\$ 38
Gross profit (loss)	\$ 22,672	\$ 24,496	\$ 2
Net income (loss)	\$ 5,550	\$ 6,460	\$
Basic earnings (loss) per common share	\$ 0.21	\$ 0.24	\$
Diluted earnings (loss) per common share	\$ 0.20	\$ 0.24	\$

- (a) The fourth quarter of 2005 includes the results of Rudolph and Sletten which was acquired October 3, 2005. The fourth quarter of 2005 also includes a \$23.6 million after-tax charge related to the adverse judgment received in the WMATA matter.
- (b) The fourth quarter of 2005 includes \$2.3 million (or approximately \$0.09 per share) added back to net loss in the calculation of income available for common stockholders that represents the reversal of dividends previously accrued, but no longer required as a result of the settlement of the \$21.25 Preferred Stock lawsuit. (See Note 8).

**[11] Business Segments**

Business segment information presented below was determined in accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information".

The Company provides diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. The Company's construction business is conducted through three basic segments: building, civil and management services. The building segment is comprised of Perini Building Company, James A. Cummings, Inc., and Rudolph and Sletten, Inc., and focuses on large, complex projects in the hospitality and gaming, sports and entertainment, educational, transportation, healthcare, biotech, pharmaceutical and high-tech markets. The civil segment is comprised of Perini Civil Construction and Cherry Hill Construction, Inc., and focuses on public works construction primarily in the northeastern and mid-Atlantic United States including the repair, replacement and

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reconstruction of the public infrastructure such as highways, bridges, mass transit systems and wastewater treatment facilities. The management services segment provides diversified construction, design-build and maintenance services to the U.S. military and government agencies as well as surety companies and multi-national corporations in the United States and overseas.

During the years 2004 through 2006, the Company's chief operating decision making group consisted of the Chairman and Chief Executive Officer, the President and Chief Operating Officer who is also the President of Perini Management Services, the President of Perini Building Company and the President of Perini Civil Construction. This group decides how to allocate resources and assess performance of the business segments. Generally, the Company evaluates performance of its operating segments on the basis of income from operations and cash flow. The accounting policies applied by each of the segments are the same as those described in the Summary of Significant Accounting Policies (see Note 1). The following tables set forth certain business and geographic segment information relating to the Company's operations for each of the three years in the period ended December 31, 2006 (in thousands):

79

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

#### [11] Business Segments (continued)

<u>2006</u>	Reportable Segments			
	Building	Civil	Management Services	Totals
Revenues	\$ 2,515,051	\$ 281,137	\$ 246,651	\$ 3,042,839
Income from Construction Operations	\$ 59,296	\$ 1,772	\$ 34,280	\$ 95,348
Assets	\$ 717,467	\$ 253,896	\$ 27,430	\$ 998,793
Capital Expenditures	\$ 17,850	\$ 3,453	\$ 223	\$ 21,526
<u>2005</u>	Reportable Segments			
	Building	Civil	Management Services	Totals
Revenues	\$ 1,181,103	\$ 275,584	\$ 276,790	\$ 1,733,477
Income from Construction Operations	\$ 29,277	\$ (26,890)	\$ 19,133	\$ 21,520
Assets	\$ 463,885	\$ 288,174	\$ 39,357	\$ 791,416
Capital Expenditures	\$ 6,702	\$ 5,500	\$ 145	\$ 12,347
<u>2004</u>	Reportable Segments			
	Building	Civil	Management Services	Totals
Revenues	\$ 1,298,771	\$ 138,095	\$ 405,449	\$ 1,842,315
Income from Construction Operations	\$ 23,578	\$ 5,463	\$ 29,913	\$ 58,954
Assets	\$ 296,017	\$ 203,311	\$ 52,474	\$ 551,802
Capital Expenditures	\$ 2,038	\$ 2,193	\$ 255	\$ 4,486

(a) In all years, consists of corporate general and administrative expenses.

(b) In all years, 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.

Revenues from the Project CityCenter project and other projects in Las Vegas, Nevada for MGM Mirage in the building segment totaled approximately \$452 million (or 15% of consolidated revenues) in 2006. Revenues from various healthcare-related projects in California for



Kaiser Foundation Health Plan, Inc. in the building segment totaled approximately \$310 million (or 10% of consolidated revenues) in 2006. Revenues from the Red Rock Casino Resort Spa project in Las Vegas, Nevada for Station Casinos, Inc. in the building segment totaled approximately \$355 million (or 20% of consolidated revenues) in 2005. Revenues from the San Manuel Bingo and Casino expansion project in California for the San Manuel Band of Mission Indians in the building segment totaled approximately \$203 million (or 11% of consolidated revenues) in 2004. Revenues from various agencies of the United States federal government in the management services segment totaled approximately \$201 million (or 12% of consolidated revenues) in 2005, and approximately \$333 million (or 18% of consolidated revenues) in 2004.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

### [11] Business Segments (continued)

Information concerning principal geographic areas is as follows (in thousands):

	Revenues		
	2006	2005	2004
United States	\$ 2,887,755	\$ 1,543,289	\$ 1,506,846
Foreign and U.S. Territories	155,084	190,188	335,469
Total	\$ 3,042,839	\$ 1,733,477	\$ 1,842,315
	Income (Loss) from Construction Operations		
	2006	2005	2004
United States	\$ 66,022	\$ 2,970	\$ 34,381
Foreign and U.S. Territories	29,326	18,550	24,573
Corporate	(24,469)	(13,567)	(10,237)
Total	\$ 70,879	\$ 7,953	\$ 48,717

Income (loss) from construction operations has been allocated geographically based on the location of the job site. Long-lived assets outside the United States are immaterial and therefore not presented.

### [12] Related Party Transactions

As a condition to an investor group's acquisition of shares of the Company's Series B Preferred Stock for an aggregate of \$30 million, which was approved by the stockholders in January 1997, the Company entered into an agreement with Tutor-Saliba Corporation ("Tutor-Saliba"), a California corporation engaged in the construction industry, and Ronald N. Tutor, Chief Executive Officer and sole stockholder of Tutor-Saliba, to provide certain management services, as defined. Tutor-Saliba participates in joint ventures with the Company, the Company's share of which contributed \$41.4 million (or 1.4%), \$39.2 million (or 2.3%) and \$37.7 million (or 2.0%) to the Company's consolidated revenues in 2006, 2005 and 2004, respectively. The management agreement has generally been renewed annually by the Compensation Committee of the Company's Board of Directors, which consists entirely of independent directors, under the same basic terms and conditions as the initial agreement except that the amount of the annual fee payable thereunder to Tutor-Saliba was increased effective September 15, 2004, from \$375,000 to \$800,000, and effective March 15, 2006, from \$800,000 to \$900,000. Effective December 1, 2001, Mr. Tutor was included as a participant in the Company's incentive compensation plan. Since January 17, 1997, Mr. Tutor has been a member of the Company's Board of Directors and an officer of Perini and effective July 1, 1999 was elected Chairman of the Board of Directors and effective March 29, 2000 was elected Chairman and Chief Executive Officer. Compensation for the management services consists of payment of \$499,000 to Tutor-Saliba for the year ended December 31, 2004, \$800,000 for the year ended December 31, 2005, and \$879,000 for the year ended December 31, 2006; stock options and

restricted stock awards granted to Mr. Tutor; and incentive compensation awarded to Mr. Tutor of \$879,000 in 2006, and \$800,000 in both 2005 and 2004. The stock options were granted to Mr. Tutor in January, 1997 (150,000 shares), December, 1998 (45,000 shares), January, 1999 (30,000 shares) and March, 2000 (1,000,000 shares). All of the stock options were granted at or above the fair market value price per share on the respective dates of grant. All of the stock options were exercised during 2004.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2006, 2005 and 2004 (continued)

**[12] Related Party Transactions (continued)**

On December 15, 2004, the Company entered into an agreement with Mr. Tutor pursuant to which the Company would grant Mr. Tutor 150,000 shares of unrestricted common stock of the Company under the Perini Corporation 2004 Stock Option and Incentive Plan provided that Mr. Tutor completed certain service requirements through June 30, 2005 and June 30, 2006. Accordingly, the Company issued to Mr. Tutor 75,000 shares of common stock on June 30, 2005 and issued 75,000 additional shares of common stock to Mr. Tutor on June 30, 2006. The grant date fair value of the restricted stock awards was \$2.5 million which was recorded as expense over the vesting period. Expense related to these restricted stock awards of \$0.4 million, \$2.0 million and \$0.1 million was recorded in 2006, 2005 and 2004, respectively.

The investors that provided \$40 million of new equity in the Company on March 29, 2000 consist of Tutor-Saliba (see above), O&G Industries, Inc. ("O&G"), a participant in certain construction joint ventures with the Company, and National Union Fire Insurance Company of Pittsburgh, Pa., a wholly owned subsidiary of American International Group, Inc. ("AIG"), one of the Company's sureties and a provider of insurance and insurance related services to the Company. These investors participated in a secondary public stock offering which was completed in December 2005. In addition, in 2005 Tutor-Saliba exercised its call right under an existing shareholders' agreement to purchase 2,352,941 shares owned by AIG at a predetermined rate, as defined. The cumulative holdings of each of the investors as of December 31, 2006, 2005 and 2004 were as follows:

	Number of Common Shares	
	Tutor-Saliba	O&G
Balance at December 31, 2004	3,112,288	2,502,941
Sold in secondary offering	(1,500,000)	(700,000)
Exercise of call option per Shareholders' Agreement	2,352,941	-
Balance at December 31, 2005	3,965,229	1,802,941
Sold or donated	(930,000)	(150,000)
Balance at December 31, 2006	3,035,229	1,652,941
Percentage of total common shares outstanding	11.43%	6.22%

Each of the investors was entitled to appoint a member to the Company's Board of Directors. O&G participates in joint ventures with the Company, the Company's share of which contributed \$37.9 million (or 1.2%), \$38.4 million (or 2.2%) and \$34.7 million (or 1.9%) to the Company's consolidated revenues in 2006, 2005 and 2004, respectively.

**[13] Land Held for Sale**

As of December 31, 2006, land held for sale consists of approximately 30 fully developed acres in Raynham, Massachusetts. Management's plan is to continue to market the remaining land for sale in this development as a bulk sale or as individual parcels over an estimated 24 to 36 month "sell off" period.

During the year ended December 31, 2006, 2 acres were sold resulting in a net loss of \$0.4 million. During the year ended December 31, 2005, 28 acres were sold resulting in a net gain of \$1.6 million and during the year ended December 31, 2004, 4 acres were sold resulting in a net loss of \$0.3 million. (See Note 6.)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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To the Board of Directors and Stockholders of Perini Corporation  
Framingham, Massachusetts

We have audited the accompanying consolidated balance sheets of Perini Corporation and subsidiaries (collectively, the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Perini Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 1, Note 7 and Note 9 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* applying the modified prospective method and adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statement No. 87, 88, 106, and 132(R)*.

/s/Deloitte & Touche LLP

Boston, Massachusetts  
March 7, 2007

83

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### *Exhibit Index*

The following designated exhibits are, as indicated below, either filed herewith or have heretofore been filed with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Act of 1934 and are referred to and incorporated herein by reference to such filings.

Exhibit 3.	Articles of Incorporation and By-laws
3.1	Restated Articles of Organization (incorporated by reference to Exhibit 4 to Form S-2 (File No. 33-28401) filed on April 28, 1989).
3.2	Articles of Amendment to the Restated Articles of Organization of the Perini Corporation (incorporated by reference to Exhibit 3.2 to Form S-1 (File No. 111338) filed on December 19, 2003).
3.3	Articles of Amendment to the Articles of Organization of Perini Corporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on April 12, 2006).
3.4	Amended and Restated Bylaws of Perini Corporation (incorporated by reference to Exhibit 3.2 of Form 8-K (File No. 001-06314) filed on February 14, 1997).
3.5	Amendment No. 1 to the Amended and Restated Bylaws of Perini Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K filed on April 12, 2006).

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### Exhibit 4. Instruments Defining the Rights of Security Holders, Including Indentures

- 4.1 Registration Rights Agreement by and among Perini Corporation, Tutor-Saliba Corporation, Ronald N. Tutor, O&G Industries, Inc. and National Union Fire Insurance Company of Pittsburgh, Pa., BLUM Capital Partners, L.P., PB Capital Partners, L.P., The Common Fund for Non-Profit Organizations, and The Union Labor Life Insurance Company, acting on behalf of its Separate Account P, dated as of March 29, 2000 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on April 12, 2000).
- 4.2 Shareholders' Agreement by and among Perini Corporation, Tutor-Saliba Corporation, Ronald N. Tutor, O&G Industries, Inc. and National Union Fire Insurance Company of Pittsburgh, Pa., BLUM Capital Partners, L.P., PB Capital Partners, L.P., The Common Fund for Non-Profit Organizations, and The Union Labor Life Insurance Company, acting on behalf of its Separate Account P, dated as of March 29, 2000 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on April 12, 2000).
- 4.3 Letter Agreement by and among Perini Corporation, BLUM Capital Partners, L.P., PB Capital Partners, L.P. and The Common Fund for Non-Profit Organizations, dated as of December 1, 2003 (incorporated by reference to Exhibit 4.14 to Form S-1 (File No. 333-111338) filed on December 19, 2003).

84

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### *Exhibit Index* (Continued)

- 4.4 Securityholders Agreement by and among Perini Corporation, PB Capital Partners, L.P., The Union Labor Life Insurance Company Separate Account P, The Common Fund for Non-Profit Organizations, for the Account of its Equity Fund and the Initial Warrantholders (as defined therein), dated as of January 17, 1999 (incorporated by reference to Exhibit 4.16 to Amendment No. 4 to Form S-1 (File No. 333-111338) filed on April 8, 2004).
- Exhibit 10. Material Contracts
- 10.1 Perini Corporation Amended and Restated (2004) General Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to Amendment No. 2 to Form S-1 (File No. 333-111338) filed on March 8, 2004).
  - 10.2 Perini Corporation Amended and Restated (2004) Construction Business Unit Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to Amendment No. 2 to Form S-1 (File No. 333-111338) filed on March 8, 2004).
  - 10.3 Management Agreement dated as of January 17, 1997 by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.16 to Perini Corporation's Annual Report on Form 10-K for the period ended December 31, 2002 filed on March 31, 2003).
  - 10.4 Amendment No. 1 dated as of December 23, 1998 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.4 to Form S-1 (File No. 333-111338) filed on December 19, 2003).
  - 10.5 Amendment No. 2 dated as of December 31, 1999 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.31 to Perini Corporation's Quarterly Report on Form 10-Q for the period ended March 31, 2000 filed on May 9, 2000).

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- 10.6 Amendment No. 3 dated as of December 31, 2000 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation. (incorporated by reference to Exhibit 10.6 to Form S-1 (File No. 333-1113 on December 19, 2003).
- 10.7 Amendment No. 4 dated as of December 31, 2001 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.36 to Perini Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 31, 2003).

85

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### *Exhibit Index* (Continued)

- 10.8 Amendment No. 5 dated as of December 31, 2002 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.8 to Form S-1 (File No. 333-1113 on December 19, 2003).
- 10.9 Special Equity Incentive Plan (incorporated by reference to Exhibit A to Perini Corporation's Proxy Statement for the Annual Meeting of Stockholders dated April 19, 2000).
- 10.10 Perini Corporation 2004 Stock Option and Incentive Plan (incorporated by reference to Exhibit D to Perini Corporation's Proxy Statement for the Annual Meeting of Stockholders dated April 20, 2004).
- 10.11 Promissory Note dated as of September 6, 2000 by and among Mt. Wayte Realty, LLC (a wholly-owned subsidiary of Perini Corporation) and The Manufacturers Life Insurance Company (U.S.A.) (incorporated by reference to Exhibit 10.34 to Perini Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2000 filed on November 6, 2000).
- 10.12 Credit Agreement dated January 23, 2002 among Perini Corporation, Fleet National Bank, as Administrative Agent, Fleet National Bank, as Arranger, and the Party Hereto (incorporated by reference to Exhibit 10.35 to Perini Corporation's Annual Report on Form 10-K for the year ended December 31, 2001 filed on March 21, 2002).
- 10.13 Employment Agreement dated January 23, 2003 by and among the Company, James A. Cummings, Inc. and James A. Cummings (incorporated by reference to Exhibit 10.38 to Perini Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 31, 2003).
- 10.14 First Amendment and Waiver dated February 14, 2003 to Credit Agreement among Perini Corporation, Fleet National Bank, as Administrative Agent, and the Lender (incorporated by reference to Exhibit 10.39 to Perini Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 31, 2003).
- 10.15 Second Amendment dated November 5, 2003 to Credit Agreement among Perini Corporation, Fleet National Bank, as Administrative Agent, and the Lender (incorporated by reference to Exhibit 10.17 to Form S-1 (File No. 333-1113 on December 19, 2003).
- 10.16 Amendment No. 6 dated as of January 1, 2004 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.18 to Amendment No. 1 to Form S-1

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(File No. 333-111338) filed on February 10, 2004).

86

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### *Exhibit Index* (Continued)

- 10.17 Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.19 to Amendment No. 1 to Form S-1 (File No. 333-111338) filed on February 10, 2004).
- 10.18 Third Amendment dated January 31, 2004 to Credit Agreement among Perini Corporation, Fleet National Bank, as Administrative Agent, and the Lender (incorporated by reference to Exhibit 10.20 to Amendment No. 2 to Form S-1 (File No. 333-111338) filed on March 8, 2004).
- 10.19 Fourth Amendment and Waiver dated August 25, 2004 to Credit Agreement among Perini Corporation, Fleet National Bank, as Administrative Agent, and the Lender (incorporated by reference to Exhibit 10.1 to Perini Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2004 filed on November 5, 2004).
- 10.20 Amendment No. 7 dated as of September 15, 2004 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.2 to Perini Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2004 filed on November 5, 2004).
- 10.21 Amendment No. 8 dated as of December 15, 2004 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed on December 16, 2004).
- 10.22 Retention Incentive Agreement dated as of December 15, 2004 between the Company and Ronald N. Tutor (incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 16, 2004).
- 10.23 Form of Restricted Stock Unit Award Agreement under the Perini Corporation's Option and Incentive Plan (incorporated by reference to Exhibit 10.24 to Perini Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, on March 4, 2005).
- 10.24 Fifth Amendment dated as of March 31, 2005 to Credit Agreement among Perini Corporation, Fleet National Bank, as Administrative Agent, and the Lender (incorporated by reference to Exhibit 10.1 to Perini Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2005 filed on August 5, 2005) (this amendment is incorporated by reference to the Amended and Restated Credit Agreement listed as Exhibit Number 10.27).
- 10.25 Stock Purchase Agreement dated as of October 3, 2005 by and among Perini Corporation, Rudolph and Sletten, Inc., and the Shareholders of Rudolph and Sletten, Inc. (incorporated by reference to Exhibit 10.1 to Perini Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2005 filed on November 4, 2005).

87

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### *Exhibit Index* (Continued)

- 10.26 Amended and Restated Credit Agreement dated October 14, 2005 among Perini Corporation, Bank of America, N.A., as Administrative Agent, Bank of America

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as Arranger, and the Lenders Party thereto (incorporated by reference to Perini Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2005 filed on November 4, 2005).

- 10.27 Letter Agreement by and among Perini Corporation, BLUM Capital Partners, Capital Partners, L.P., National Union Fire Insurance Company of Pittsburgh, Union Labor Life Insurance Company, O&G Industries, Inc. and Tutor-Saliba Corporation, dated as of December 14, 2005 (incorporated by reference to Post-Effective Amendment No. 4 to Form S-1 (File No. 333-117344) filed December 14, 2005).
- 10.28 First Amendment and Waiver dated as of February 23, 2006 to Amended and Restated Credit Agreement among Perini Corporation, Bank of America, N.A., as Administrative Agent, and the lenders (incorporated by reference to Exhibit 10.29 to Perini Corporation's Annual Report on Form 10-K for the year ended December 31, 2006, on March 10, 2006).
- 10.29 Amendment No. 9 dated as of March 15, 2006 to the Management Agreement by and among the Company, Ronald N. Tutor and Tutor-Saliba Corporation (incorporated by reference to Exhibit 10.1 to Form 10-Q filed on May 5, 2006).
- 10.30 Amended and Restated Credit Agreement, dated February 22, 2007 among Perini Corporation, the subsidiaries of Perini identified therein, Bank of America, N.A., and other lenders that are parties thereto (incorporated by reference to Exhibit 10.30 to Form 10-K filed on February 27, 2007).
- Exhibit 21. Subsidiaries of Perini Corporation - filed herewith.
- Exhibit 23. Consent of Independent Registered Public Accounting Firm - filed herewith.
- Exhibit 24. Power of Attorney - filed herewith.
- Exhibit 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the 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 and 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 and Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - filed herewith.

88

Exhibit 21

**Perini Corporation**  
**Subsidiaries of the Registrant**

Name	Place of Organization
----- Perini Corporation	----- Massachusetts

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Perini Building Company, Inc.	Arizona
Perini Management Services, Inc. (f/k/a Perini International Corporation)	Massachusetts
James A. Cummings, Inc.	Florida
Cherry Hill Construction, Inc.	Maryland
Rudolph and Sletten, Inc.	California
Perini Environmental Services, Inc.	Delaware
International Construction Management Services, Inc.	Delaware
Percon Constructors, Inc.	Delaware
Bow Leasing Company, Inc.	New Hampshire
Perini Land & Development Company, Inc.	Massachusetts
Paramount Development Associates, Inc.	Massachusetts
Mt. Wayte Realty, LLC	Delaware

89

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Exhibit 23

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 002-82117, 033-24646, 333-40370, 333-116362 and 333-138411, on Form S-8 of our reports dated March 7, 2007, relating to the consolidated financial statements of Perini Corporation (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the Company's adoption of new accounting principles in 2006) and management's report on the effectiveness of internal control over financial reporting, appearing in, or incorporated by reference in, this Annual Report on Form 10-K of Perini Corporation for the year ended December 31, 2006.

/s/Deloitte & Touche LLP

Boston, Massachusetts  
March 7, 2007

90

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Exhibit 24

**Power of Attorney**



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We, the undersigned, Directors of Perini Corporation, hereby severally constitute Robert Band and Michael E. Ciskey, and each of them singly, our true and lawful attorneys, with full power to them and to each of them to sign for us, and in our names in the capacities indicated below, any Annual Report on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 to be filed with the Securities and Exchange Commission and any and all amendments to said Annual Report on Form 10-K, hereby ratifying and confirming our signatures as they may be signed by our said Attorneys to said Annual Report on Form 10-K and to any and all amendments thereto and generally to do all such things in our names and behalf and in our said capacities as will enable Perini Corporation to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

WITNESS our hands and common seal on the date set forth below.

/s/Peter Arkley  
Peter Arkley

Director March 7, 2007  
Date

/s/Robert Band  
Robert Band

Director March 7, 2007  
Date

/s/Willard W. Brittain  
Willard W. Brittain

Director March 7, 2007  
Date

/s/James A. Cummings  
James A. Cummings

Director March 7, 2007  
Date

/s/Robert A. Kennedy  
Robert A. Kennedy

Director March 7, 2007  
Date

/s/Michael R. Klein  
Michael R. Klein

Director March 7, 2007  
Date

/s/Robert L. Miller  
Robert L. Miller

Director March 7, 2007  
Date

/s/Raymond R. Oneglia  
Raymond R. Oneglia

Director March 7, 2007  
Date

/s/Ronald N. Tutor  
Ronald N. Tutor

Director March 7, 2007  
Date