CHICAGO BRIDGE & IRON CO N V
Form 10-K
March 01, 2007

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

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2006**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File Number 1-12815

CHICAGO BRIDGE & IRON COMPANY N.V.

Incorporated in The Netherlands	IRS Identification Number: not applicable

Polarisavenue 31
2132 JH Hoofddorp
The Netherlands
31-23-5685660
(Address and telephone number of principal executive offices)

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

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock; Euro .01 par value	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 o NO þ

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 o NO þ

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 þ NO o

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 amendments to this Form 10-K. o

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.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) YES o NO þ

Aggregate market value of common stock held by non-affiliates, based on a New York Stock Exchange closing price of $24.15 as of June 30, 2006, was $2,357,832,893.

The number of shares outstanding of the registrant s common stock as of February 1, 2007 was 96,069,195.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2007 Proxy Statement	Part III

CHICAGO BRIDGE & IRON COMPANY N.V. AND SUBSIDIARIES

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PART I

Item 1. *Business*

Founded in 1889, Chicago Bridge & Iron Company N.V. and Subsidiaries (CB&I or the Company) is one of the world s leading engineering, procurement and construction (EPC) companies, specializing in projects for customers that produce, process, store and distribute the world s natural resources. With more than 60 locations and approximately 12,000 employees worldwide, we capitalize on our global expertise and local knowledge to reliably and safely deliver projects virtually anywhere. CB&I is a fully integrated EPC service provider, offering a complete package of conceptual design, engineering, procurement, fabrication, field erection, mechanical installation and commissioning. Our projects include hydrocarbon processing plants, liquefied natural gas (LNG) terminals and peak shaving plants, offshore structures, pipelines, bulk liquid terminals, water storage and treatment facilities, and other steel structures and their associated systems. During 2006, we executed more than 500 projects for customers in a variety of industries. Over the last several years, our customers have included:

- large U.S., multinational and state-owned oil companies, such as BP, British Gas, Chevron, CNOOC Petroleum, ConocoPhillips, ExxonMobil, Marathon, Pluspetrol, Qatar Petroleum, Saudi Aramco, Shell and Valero Energy Corporation;

- LNG and natural gas producers and distributors, such as Dominion, Golden Pass LNG, Grain LNG, South Hook LNG, Southern LNG and Yankee Gas; and

- municipal and private water companies.

Services

We provide a wide range of innovative and value-added EPC services, including:

Liquefied Natural Gas (LNG). LNG terminals and similar facilities are used for the production, handling, storage and distribution of liquefied gases. We specialize in providing turnkey liquefaction and regasification facilities consisting of terminals, tanks, and associated systems. These facilities usually include special refrigeration equipment to maintain the gases in liquefied form at the storage pressure. We also provide LNG tanks on a stand-alone basis. Process equipment and refrigerated or cryogenic tanks are built from special steels and alloys that have properties to withstand cold temperatures. Applications extend from low temperature (+30 F to −100 F) to cryogenic (−100 F to −423 F). Customers for these facilities or tanks are primarily from the petroleum, natural gas, power generation and agricultural industries.

Refining and Related Processes. We provide EPC services for customers in the hydrocarbon industry, specializing in refinery and petrochemical process units, gas processing plants, and hydrogen and synthesis gas plants. Refinery and petrochemical process units enable customers to extract products from the top, middle and bottom streams of the crude oil barrel using technologies such as catalytic reforming, vacuum and atmospheric distillation, fuels and distillate hydrotreating, hydrodesulfurization, alkylation, coking, and isomerization. Gas processing plants treat natural gas to meet pipeline requirements and to recover valuable liquids and other enhanced products, through such technologies as cryogenic separation, amine treatment, dehydration and liquids fractionation. Synthesis gas plants generate industrial gases for use in a variety of industries through technologies such as steam methane and auto-thermal reforming, partial oxidation reactors and pressure swing adsorption purification. CB&I also provides engineering services for offshore structures for oil and gas production and pipelines for product distribution.

Steel Plate Structures. Steel plate structures include above ground storage tanks, pressure vessels, and other specialty structures. Above ground storage tanks are sold primarily to customers operating in the petroleum, petrochemical and chemical industries. This industrial customer group includes nearly all of the world s major oil and chemical companies. Above ground tanks can be used for storage of crude oil, refined products such as gasoline, chemicals, petrochemicals and a large variety of feedstocks for the manufacturing industry. In addition, CB&I provides structures for water storage and treatment as well as liquefied petroleum gas (LPG) and liquefied nitrogen/liquefied oxygen (LIN/LOX) tanks. Pressure vessels are built primarily from high strength carbon steel plates which may be formed in one of our fabrication shops and are welded together at the job site. Pressure vessels

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are constructed in a variety of shapes and sizes, some weighing in excess of 700 tons, with wall thickness in excess of four inches. Typical pressure vessel usage includes process and storage vessels in the petroleum, petrochemical, and chemical industries and egg-shaped digesters for wastewater treatment. Other specialty structures are marketed to a diverse group of customers. Examples of specialty structures include processing facilities or components used in the mining industries. We have designed and erected tanks, pressure vessels, and other specialty structures throughout the world.

Certain Acquisitions

On April 29, 2003, we acquired certain assets and assumed certain liabilities of Petrofac Inc., an EPC company serving the hydrocarbon processing industry, for $26.6 million, including transaction costs. The acquired operations, located in Tyler, Texas, have been fully integrated into our North America segment s CB&I Howe-Baker unit and have expanded our capacity to engineer, fabricate and install EPC projects for the oil refining, oil production, gas treating and petrochemical industries.

On May 30, 2003, we acquired certain assets and assumed certain liabilities of John Brown Hydrocarbons Limited (John Brown), for $29.6 million, including transaction costs, net of cash acquired. John Brown provides comprehensive engineering, program and construction management services for the offshore, onshore and pipeline sectors of the hydrocarbon industry, as well as for LNG terminals. The acquired operations, located in London, Moscow, the Caspian Region and Canada, have been integrated into our Europe, Africa, Middle East segment. This addition has strengthened our international engineering and execution platform and expanded our capabilities into the upstream oil and gas sector.

Competitive Strengths

Our core competencies, which we believe are significant competitive strengths, include:

Worldwide Record of Excellence. We have an established record as a leader in the international engineering and construction industry by providing consistently superior project performance for 117 years.

Fully-Integrated Specialty EPC Provider. We are one of a very few global EPC providers that can deliver a project from conception to commissioning, including conceptual design, detail engineering, procurement, fabrication, field erection, mechanical installation, start-up assistance and operator training. We generally design what we build and build what we design, allowing us to provide innovative engineering solutions, aggressive schedules and work plans, and optimal quality and reliability.

Global Execution Capabilities. With a global network of some 60 sales and operations offices and established labor and supplier relationships, we have the ability to rapidly mobilize people, materials and equipment to execute projects in locations ranging from highly industrialized countries to some of the world s more remote regions. We executed more than 500 projects in 40 different countries in 2006. Our global reach makes us an attractive partner for large, global energy and industrial companies with geographically dispersed operations and also allows us to allocate our internal resources to geographies and industries with the greatest current demand. At the same time, because of our long-standing presence in numerous markets around the world, we have a prominent position as a local contractor in those markets.

History of Innovation. We have established a reputation for technical innovation ever since we introduced the first floating roof storage tank to the petroleum industry in 1923. We have since maintained a strong culture of developing technological innovations and currently possess over 60 active U.S. patents. We develop innovative technologies on behalf of our customers that are immediately applicable to improving hydrocarbon processing, storage technology and field erection procedures. We are equipped with well-established technology and proprietary know-how in refinery processes, synthesis gas production, gas-to-liquids processing, natural gas processing and sulfur removal and recovery processes, an important element for the production of low sulfur transportation fuels.

Our in-house engineering team includes internationally recognized experts in site-erected metal plate structures, pre-stressed concrete structures, stress analysis, welding technology, nondestructive examination, and cryogenic storage and processing. Several of our senior engineers are long-standing members of committees

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that have helped develop worldwide standards for storage structures and process vessels for the petroleum and water industries, including the American Petroleum Institute, American Water Works Association and American Society of Mechanical Engineers.

Strong Focus on Project Risk Management. We are experienced in managing the risk associated with bidding on and executing complex projects. Our position as a fully-integrated EPC service provider allows us to execute global projects on a competitively bid fixed-price, lump-sum basis. In addition, our ability to execute lump-sum contracts provides us with access to a growing segment of the Engineering and Construction (E&C) market that is demanding these types of contracts.

Strong Health, Safety and Environmental (HSE) Performance. Success in our industry depends in part on strong HSE performance. Because of our long and outstanding safety record, we are sometimes invited to bid on projects for which other competitors do not qualify. According to the U.S. Bureau of Labor Statistics (BLS), the national Lost Workday Case Incidence Rate for construction companies similar to CB&I was 3.6 per 100 full-time employees for 2005 (the latest reported year), while our rate for 2006 was only 0.08 per 100. The national BLS figure for Recordable Incidence Rate was 3.2 per 100 workers for 2005 (the latest reported year), while our rate for 2006 was only 0.40. Our excellent HSE performance also translates directly to lower cost, timely completion of projects, and reduced risk to our employees, subcontractors and customers.

Management Team with Extensive Engineering and Construction Industry Experience. Members of our senior leadership team have an average of more than 25 years of experience in the engineering and construction industry.

Growth Strategy

We intend to increase shareholder value through the execution of the following growth strategies:

Expanding our Position in the High-Growth Energy Infrastructure Business. Growing worldwide demand for energy has led to a sustained period of historically high oil and natural gas prices. In turn, these factors have prompted an upsurge in capital spending in the oil and gas industry that is predicted to last for several years. We believe we will benefit from this higher spending curve in a number of areas where we can draw upon our experience and technical capabilities.

In the natural gas market, higher demand and pricing are prompting the development of new LNG import and export facilities and the expansion of existing import terminals, as well as increased development of unconventional natural gas reserves. LNG must be stored at cryogenic temperatures and then regassified for introduction into the natural gas pipeline grid. The desire to monetize stranded gas could also lead to the development of gas-to-liquids (GTL) projects. We have capabilities in cryogenic storage and systems which are used to store and regassify LNG; in natural gas processing systems that treat and condition natural gas for consumer use; and in the design and construction of process units used for the conversion of natural gas to liquid fuels.

In the refining market, higher demand and pricing, combined with declining reserves of sweet crude, are prompting refiners to add capacity and to improve their ability to process heavier and more sour grades of crude. Heavy crude requires more intense processing to remove sulfur, nitrogen, heavy metals and other contaminants and to yield higher-value products. Refiners are also adding process units to produce low sulfur gasoline and diesel to meet stricter worldwide clean fuels regulations. We have capabilities in such areas as hydrogen production, hydrodesulfurization, sulfur removal and recovery, catalytic conversion and heavy-wall process vessels that enable refiners to process heavy crude and to produce clean fuels.

Creating Growth from Acquisitions and Other Business Combinations. On an opportunistic basis, we may pursue growth through selective acquisitions of businesses or assets that will expand or complement our current portfolio of services and meet our stringent acquisition criteria. We expect to capitalize on any acquisitions across our global sales and execution platform. We will also focus on imparting best practices and technologies from acquired businesses throughout the organization.

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Competition

We operate in a competitive environment. Price, timeliness of completion, quality, safety record and reputation are the principal competitive factors within the industry. There are numerous regional, national and global competitors that offer services similar to ours.

Marketing and Customers

Through our global network of sales offices, we contract directly with hundreds of customers in a targeted range of industries that produce, process, store and distribute the world s natural resources. We rely primarily on direct contact between our technically qualified sales and engineering staff and our customers engineering and contracting departments. Dedicated sales employees are located throughout our global offices.

Our significant customers, with many of which we have had longstanding relationships, are primarily in the hydrocarbon sector and include major petroleum companies, *e.g.*, British Gas, Chevron, ConocoPhillips, ExxonMobil, Golden Pass LNG, Shell, South Hook LNG and Valero Energy Corporation.

We are not dependent upon any single customer on an ongoing basis and do not believe the loss of any single customer would have a material adverse effect on our business. For the year ended December 31, 2006, we had one customer within our North America segment and one customer within our Europe, Africa, Middle East (EAME) segment that each accounted for more than 10% of our total revenue. Revenue from Valero Energy Corporation totaled approximately $353.5 million or 11% of our total revenue, and revenue from South Hook LNG totaled approximately $515.4 million or 16% of our total revenue. For the year ended December 31, 2005, we had one customer within our North America segment that accounted for more than 10% of our total revenue. Revenue from Valero Energy Corporation totaled approximately $244.5 million or 11% of our total revenue. No single customer accounted for more than 10% of our revenue in 2004.

Segment Financial Information

Financial information by geographic area of operation can be found in the section entitled Results of Operations in Item 7 and Financial Statements and Supplementary Data in Item 8.

Backlog/New Awards

We had a backlog of work to be completed on contracts of $4.6 billion as of December 31, 2006, compared with $3.2 billion as of December 31, 2005. Due to the timing of awards and the long-term nature of some of our projects, certain backlog of our work may not be completed in the current fiscal year as our revenue is anticipated to be approximately $3.8 to $4.1 billion in 2007. New awards were over $4.4 billion for the year ended December 31, 2006, compared with approximately $3.3 billion for the year ended December 31, 2005.

	Years Ended December 31,	
	2006	**2005**
	(In thousands)	
North America	$ 2,753,121	$ 1,518,317
Europe, Africa, Middle East	1,143,941	1,196,567
Asia Pacific	324,445	426,265

Central and South America	207,776	138,296
Total New Awards	$ 4,429,283	$ 3,279,445

Types of Contracts

Our contracts are usually awarded on a competitive bid and negotiated basis. We are primarily a fixed-price, lump-sum contractor. The balance of our work is performed on variations of cost reimbursable and target price approaches.

Raw Materials and Suppliers

The principal raw materials that we use are metal plate, structural steel, pipe, fittings and selected engineered equipment such as pumps, valves, compressors, motors and electrical and instrumentation components. Most of these materials are available from numerous suppliers worldwide with some furnished under negotiated supply agreements. We anticipate being able to obtain these materials for the foreseeable future. The price, availability and schedule validities offered by our suppliers, however, may vary significantly from year to year due to various factors. These include supplier consolidations, supplier raw material shortages and costs, surcharges, supplier capacity, customer demand, market conditions, and any duties and tariffs imposed on the materials.

We make planned use of subcontractors where it assists us in meeting customer requirements with regard to schedule, cost or technical expertise. These subcontractors may range from small local entities to companies with global capabilities, some of which may be utilized on a repetitive or preferred basis. We anticipate being able to locate and contract with qualified subcontractors in all global areas where we do business.

Environmental Matters

Our operations are subject to extensive and changing U.S. federal, state and local laws and regulations, as well as laws of other nations, that establish health and environmental quality standards. These standards, among others, relate to air and water pollutants and the management and disposal of hazardous substances and wastes. We are exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes.

In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. We are not aware of any manifestation by a potential claimant of its awareness of a possible claim or assessment with respect to any such facility.

We believe that we are currently in compliance, in all material respects, with all environmental laws and regulations. We do not anticipate that we will incur material capital expenditures for environmental controls or for investigation or remediation of environmental conditions during 2007 or 2008.

Patents

We hold patents and licenses for certain items incorporated into our structures. However, none is so essential that its loss would materially affect our business.

Employees

We employed approximately 12,000 persons worldwide as of December 31, 2006. With respect to our total number of employees, as of December 31, 2006, we had 3,863 salaried employees and 8,238 hourly and craft employees. The number of hourly and craft employees varies in relation to the number and size of projects we have in process at any particular time. The percentage of our employees represented by unions generally ranges between 5 and 10 percent. Our unionized subsidiary, CBI Services, Inc., has agreements with various unions representing groups of its employees, the largest of which is with the Boilermakers Union. We have multiple agreements with various Boilermakers Unions, and each contract generally has a three-year term.

We enjoy good relations with our unions and have not experienced a significant work stoppage in any of our facilities in more than 10 years. Additionally, to preserve our project management and technological expertise as core competencies, we recruit, develop and maintain ongoing training programs for engineers and field supervision personnel.

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Available Information

We make available our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), free of charge through our internet website at www.cbi.com as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities Exchange Commission (the SEC).

Item 1A. *Risk Factors*

Any of the following risks (which are not the only risks we face) could have material adverse effects on our financial condition, operating results and cash flow.

Risk Factors Relating to Our Business

We Are Currently Subject to Securities Class Action Litigation, the Unfavorable Outcome of Which Might Have a Material Adverse Effect on Our Financial Condition, Results of Operations and Cash Flow.

A class action shareholder lawsuit was filed on February 17, 2006 against us, Gerald M. Glenn, Robert B. Jordan, and Richard E. Goodrich in the United States District Court for the Southern District of New York entitled Welmon v. Chicago Bridge & Iron Co. NV, et al. (No. 06 CV 1283). The complaint was filed on behalf of a purported class consisting of all those who purchased or otherwise acquired our securities from March 9, 2005 through February 3, 2006 and were damaged thereby.

The action asserts claims under the U.S. securities laws in connection with various public statements made by the defendants during the class period and alleges, among other things, that we misapplied percentage-of-completion accounting and did not follow our publicly stated revenue recognition policies.

Since the initial lawsuit, other suits containing substantially similar allegations and with similar, but not exactly the same, class periods were filed.

On July 5, 2006, a single Consolidated Amended Complaint was filed in the Welmon action in the Southern District of New York consolidating all previously filed actions. We and the individual defendants filed a motion to dismiss the Complaint, which was denied by the Court. Although we believe that we have meritorious defenses to the claims made in the above action and intend to contest it vigorously, an adverse resolution of the action could have a material adverse effect on our financial position and results of operations in the period in which the lawsuit is resolved.

An adverse result could reduce our available cash and necessitate increased borrowings under our credit facility, leaving less capacity available for letters of credit to support our new business, or result in our inability to comply with the covenants of our credit facility and other financing arrangements.

Our Revenue, Cash Flow and Earnings May Fluctuate, Creating Potential Liquidity Issues and Possible Under-Utilization of Our Assets.

Our revenue, cash flow and earnings may fluctuate from quarter to quarter due to a number of factors. Our revenue, cash flow and earnings are dependent upon major construction projects in cyclical industries, including the hydrocarbon refining, natural gas and water industries. The selection of, timing of or failure to obtain projects, delays in awards of projects, cancellations of projects or delays in completion of contracts could result in the under-utilization of our assets and reduce our cash flows. Moreover, construction projects for which our services are contracted may require significant expenditures by us prior to receipt of relevant payments by a customer and may expose us to potential credit risk if such customer should encounter financial difficulties. Such expenditures could reduce our cash flows and necessitate increased borrowings under our credit facilities. Finally, the winding down or completion of work on significant projects that were active in previous periods will reduce our revenue and earnings if such significant projects have not been replaced in the current period.

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Our New Awards and Liquidity May Be Adversely Affected by Bonding and Letter of Credit Capacity.

A portion of our new awards requires the support of bid, performance, payment and retention bonds. Our primary use of surety bonds is to support water and wastewater treatment and standard tank projects in the U.S. A restriction, reduction, termination or change in surety agreements could limit our ability to bid on new project opportunities, thereby limiting our new awards, or increase our letter of credit utilization in lieu of bonds, thereby reducing availability under our credit facilities.

Our Revenue and Earnings May Be Adversely Affected by a Reduced Level of Activity in the Hydrocarbon Industry.

In recent years, demand from the worldwide hydrocarbon industry has been the largest generator of our revenue. Numerous factors influence capital expenditure decisions in the hydrocarbon industry, including:

- current and projected oil and gas prices;
- exploration, extraction, production and transportation costs;
- the discovery rate of new oil and gas reserves;
- the sale and expiration dates of leases and concessions;
- local and international political and economic conditions, including war or conflict;
- technological advances;
- the ability of oil and gas companies to generate capital; and
- demand for hydrocarbon production.

In addition, changing taxes, price controls, and laws and regulations may reduce the level of activity in the hydrocarbon industry. These factors are beyond our control. Reduced activity in the hydrocarbon industry could result in a reduction of our revenue and earnings and possible under-utilization of our assets.

Intense Competition in the Engineering and Construction Industry Could Reduce Our Market Share and Earnings.

We serve markets that are highly competitive and in which a large number of multinational companies compete. In particular, the engineering, procurement and construction markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Competition also places downward pressure on our contract prices and margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our earnings.

We Could Lose Money if We Fail to Accurately Estimate Our Costs or Fail to Execute Within Our Cost Estimates on Fixed-Price, Lump-Sum Contracts.

Most of our net revenue is derived from fixed-price, lump-sum contracts. Under these contracts, we perform our services and execute our projects at a fixed price and, as a result, benefit from cost savings, but we may be unable to recover any cost overruns. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, we may incur losses or the project may not be as profitable as we expected. In addition, we are sometimes required to incur costs in connection with modifications to a contract (change orders) that may be unapproved by the customer as to scope and/or price, or to incur unanticipated costs (claims), including costs for customer-caused delays, errors in specifications or designs, or contract termination, that we may not be able to recover from our customer, or otherwise. These, in turn, could negatively impact our cash flow and earnings. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, including but not limited to:

- unanticipated technical problems with the structures or systems being supplied by us, which may require that we spend our own money to remedy the problem;
- changes in the costs of components, materials, labor or subcontractors;
- failure to properly estimate costs of engineering, material, equipment or labor;
- difficulties in obtaining required governmental permits or approvals;
- changes in local laws and regulations;
- changes in local labor conditions;
- project modifications creating unanticipated costs;
- delays caused by local weather conditions;
- our suppliers or subcontractors failure to perform; and
- exacerbation of any one or more of these factors as projects grow in size and complexity.

These risks are exacerbated if the duration of the project is long-term because there is an increased risk that the circumstances upon which we based our original bid will change in a manner that increases costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events.

Our Use of the Percentage-of-Completion Method of Accounting Could Result in a Reduction or Reversal of Previously Recorded Revenue and Profit.

Revenue is primarily recognized using the percentage-of-completion method. A significant portion of our work is performed on a fixed-price or lump-sum basis. The balance of our work is performed on variations of cost reimbursable and target price approaches. Contract revenue is accrued based on the percentage that actual costs-to-date bear to total estimated costs. We utilize this cost-to-cost approach as we believe this method is less subjective than relying on assessments of physical progress. We follow the guidance of the Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for accounting policies relating to our use of the percentage-of-completion method, estimating costs, revenue recognition, combining and segmenting contracts and unapproved change order/claim recognition. Under the cost-to-cost approach, while the most widely recognized method used for percentage-of-completion accounting, the use of estimated cost to complete each contract is a significant variable in the process of determining income earned and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which may result in a reduction or reversal of previously recorded revenue and profit.

Acquisitions Involve a Number of Risks.

We may pursue growth through the opportunistic acquisition of companies or assets that will enable us to broaden the types of projects we execute and also expand into new markets. We may be unable to implement this growth strategy if we cannot identify suitable companies or assets, reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, an acquisition involves certain risks, including:

- difficulties in the integration of operations and systems;
- the key personnel and customers of the acquired company may terminate their relationships with the acquired company;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;

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- we may assume or be held liable for risks and liabilities (including for environmental-related costs) as a result of our acquisitions, some of which we may not discover during our due diligence;
- our ongoing business may be disrupted or receive insufficient management attention; and
- we may not be able to realize the cost savings or other financial benefits we anticipated.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit and bonding capacity.

Our Projects Expose Us to Potential Professional Liability, Product Liability, or Warranty or Other Claims.

We engineer and construct (and our structures typically are installed in) large industrial facilities in which system failure can be disastrous. We may also be subject to claims resulting from the subsequent operations of facilities we have installed. In addition, our operations are subject to the usual hazards inherent in providing engineering and construction services, such as the risk of work accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage, pollution and environmental damage. We may be subject to claims as a result of these hazards.

Although we generally do not accept liability for consequential damages in our contracts, any catastrophic occurrence in excess of insurance limits at projects where our structures are installed or services are performed could result in significant professional liability, product liability, warranty and other claims against us. These liabilities could exceed our current insurance coverage and the fees we derive from those structures and services. These claims could also make it difficult for us to obtain adequate insurance coverage in the future at a reasonable cost. Clients or subcontractors that have agreed to indemnify us against such losses may refuse or be unable to pay us. A partially or completely uninsured claim, if successful, could result in substantial losses and reduce cash available for our operations.

We Are Exposed to Potential Environmental Liabilities.

We are subject to environmental laws and regulations, including those concerning:

- emissions into the air;
- discharge into waterways;
- generation, storage, handling, treatment and disposal of waste materials; and
- health and safety.

Our businesses often involve working around and with volatile, toxic and hazardous substances and other highly regulated materials, the improper characterization, handling or disposal of which could constitute violations of U.S. federal, state or local laws and regulations and laws of other nations, and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require us to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on us, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. We are also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such substances or materials.

The environmental health and safety laws and regulations to which we are subject are constantly changing, and it is impossible to predict the effect of such laws and regulations on us in the future. We cannot assure you that our operations will continue to comply with future laws and regulations or that these laws and regulations will not cause us to incur significant costs or adopt more costly methods of operation.

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In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. We are not aware of any manifestation by a potential claimant of its awareness of a possible claim or assessment with respect to any such facility.

Although we maintain liability insurance, this insurance is subject to coverage limitations, deductibles and exclusions and may exclude coverage for losses or liabilities relating to pollution damage. We may incur liabilities that may not be covered by insurance policies, or, if covered, the dollar amount of such liabilities may exceed our policy limits. Such claims could also make it more difficult for us to obtain adequate insurance coverage in the future at a reasonable cost. A partially or completely uninsured claim, if successful, could cause us to suffer a significant loss and reduce cash available for our operations.

Certain Remedies Ordered in a Federal Trade Commission Order Could Adversely Affect Us.

In October 2001, the U.S. Federal Trade Commission (the FTC or the Commission) filed an administrative complaint (the Complaint) challenging our February 2001 acquisition of certain assets of the Engineered Construction Division of Pitt-Des Moines, Inc. (PDM) that we acquired together with certain assets of the Water Division of PDM (the Engineered Construction and Water Divisions of PDM are hereafter sometimes referred to as the PDM Divisions). The Complaint alleged that the acquisition violated Federal antitrust laws by threatening to substantially lessen competition in four specific business lines in the United States: liquefied nitrogen, liquefied oxygen and liquefied argon (LIN/LOX/LAR) storage tanks; liquefied petroleum gas (LPG) storage tanks; liquefied natural gas (LNG) storage tanks and associated facilities; and field erected thermal vacuum chambers (used for the testing of satellites) (the Relevant Products).

In June 2003, an FTC Administrative Law Judge ruled that our acquisition of PDM assets threatened to substantially lessen competition in the four business lines identified above and ordered us to divest within 180 days of a final order all physical assets, intellectual property and any uncompleted construction contracts of the PDM Divisions that we acquired from PDM to a purchaser approved by the FTC that is able to utilize those assets as a viable competitor.

We appealed the ruling to the full Federal Trade Commission. In addition, the FTC Staff appealed the sufficiency of the remedies contained in the ruling to the full Federal Trade Commission. On January 6, 2005, the Commission issued its Opinion and Final Order. According to the FTC s Opinion, we would be required to divide our industrial division, including employees, into two separate operating divisions, CB&I and New PDM, and to divest New PDM to a purchaser approved by the FTC within 180 days of the Order becoming final. By order dated August 30, 2005, the FTC issued its final ruling substantially denying our petition to reconsider and upholding the Final Order as modified.

We believe that the FTC s Order and Opinion are inconsistent with the law and the facts presented at trial, in the appeal to the Commission, as well as new evidence following the close of the record. We have filed a petition for review of the FTC Order and Opinion with the United States Court of Appeals for the Fifth Circuit. We are not required to divest any assets until we have exhausted all appeal processes available to us, including appeal to the United States Supreme Court. Because (i) the remedies described in the Order and Opinion are neither consistent nor clear, (ii) the needs and requirements of any purchaser of divested assets could impact the amount and type of possible additional assets, if any, to be conveyed to the purchaser to constitute it as a viable competitor in the Relevant Products beyond those contained in the PDM Divisions, and (iii) the demand for the Relevant Products is constantly changing, we have not been able to definitively quantify the potential effect on our financial statements. The divested entity could include, among other things, certain fabrication facilities, equipment, contracts and employees of CB&I. The remedies contained in the Order, depending on how and to the extent they are ultimately implemented to establish a viable competitor in the Relevant Products, could have an adverse effect on us, including the possibility of a potential write-down of the net book value of divested assets, a loss of revenue relating to divested contracts and costs associated with a divestiture.

We Cannot Predict the Outcome of the Current Investigation by the Securities and Exchange Commission in Connection with its Investigation Titled In the Matter of Halliburton Company, File No. HO-9968.

We were served with subpoenas for documents on August 15, 2005 and January 24, 2006 by the Securities and Exchange Commission in connection with its investigation titled In the Matter of Halliburton Company, File No. HO-9968, relating to an LNG construction project on Bonny Island, Nigeria, where we served as one of several subcontractors to a Halliburton affiliate. We are cooperating fully with such investigation.

We Are and Will Continue to Be Involved in Litigation That Could Negatively Impact Our Earnings and Financial Condition.

We have been and may from time to time be named as a defendant in legal actions claiming damages in connection with engineering and construction projects and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury (including asbestos-related lawsuits) or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects, performance of equipment, design or other engineering services or project construction services provided by our subsidiaries. Management does not currently believe that pending contractual, employment-related personal injury or property damage claims will have a material adverse effect on our earnings or liquidity; however, such claims could have such an effect in the future. We may incur liabilities that may not be covered by insurance policies, or, if covered, the dollar amount of such liabilities may exceed our policy limits or fall below applicable deductibles. A partially or completely uninsured claim, if successful and of significant magnitude, could cause us to suffer a significant loss and reduce cash available for our operations.

We May Not Be Able to Fully Realize the Revenue Value Reported in Our Backlog.

We have a backlog of work to be completed on contracts totaling $4.6 billion as of December 31, 2006. Backlog develops as a result of new awards, which represent the revenue value of new project commitments received by us during a given period. Backlog consists of projects which have either (i) not yet been started or (ii) are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. We cannot guarantee that the revenue projected in our backlog will be realized, or if realized, will result in earnings. From time to time, projects are cancelled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, cancelled projects may also result in additional unrecoverable costs due to the resulting under-utilization of our assets. Finally, poor project or contract performance could also unfavorably impact our earnings.

Political and Economic Conditions, Including War or Conflict, in Non-U.S. Countries in Which We Operate Could Adversely Affect Us.

A significant number of our projects are performed outside the United States, including in developing countries with political and legal systems that are significantly different from those found in the United States. We expect non-U.S. sales and operations to continue to contribute materially to our earnings for the foreseeable future. Non-U.S. contracts and operations expose us to risks inherent in doing business outside the United States, including:

- unstable economic conditions in the non-U.S. countries in which we make capital investments, operate and provide services;

the lack of well-developed legal systems in some countries in which we operate, which could make it difficult for us to enforce our contracts;

expropriation of property;

restriction on the right to convert or repatriate currency; and

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political upheaval and international hostilities, including risks of loss due to civil strife, acts of war, guerrilla activities, insurrections and acts of terrorism.

Political instability risks may arise from time to time on a country-by-country (not geographic segment) basis where we happen to have a large active project. For example, we continue to operate in Saudi Arabia where terrorist activity might significantly increase our costs or cause a delay in the completion of a project. However, we believe that the recent level of threat from terrorists in Saudi Arabia has been reduced and at present, we are contracting for and building our standard work projects with a minimum level of expatriate employees. We will continue with this strategy until risks of terrorist activity are reduced to a level where expatriate employees and additional support services can be maintained in Saudi Arabia. Having reduced our current activity in Venezuela to a low level, having the aforementioned strategy in Saudi Arabia and having no current projects in Iraq, we do not believe we have any material risks at the present time attributable to political instability.

We Are Exposed to Possible Losses from Foreign Exchange Risks.

We are exposed to market risk from changes in foreign currency exchange rates. Our exposure to changes in foreign currency exchange rates arises from receivables, payables, foreca