

CHICAGO BRIDGE & IRON CO N V

Form 10-Q

June 02, 2006

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**FORM 10-Q**  
**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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

**For the Quarterly period ended March 31, 2006**

**OR**

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

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

**Commission File Number 1-12815**  
**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)

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

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 ☐ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

☐ Yes ☐ No

The number of shares outstanding of a single class of common stock as of May 1, 2006 97,754,840.

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**Table of Contents**CHICAGO BRIDGE & IRON COMPANY N.V.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME*(In thousands, except per share data)***(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$646,596	\$478,783
Cost of revenue	587,396	427,920
Gross profit	59,200	50,863
Selling and administrative expenses	38,949	25,517
Intangibles amortization	177	386
Other operating income, net	(90)	(102)
Income from operations	20,164	25,062
Interest expense	(2,389)	(2,232)
Interest income	2,850	1,365
Income before taxes and minority interest	20,625	24,195
Income tax expense	(6,468)	(8,105)
Income before minority interest	14,157	16,090
Minority interest in income	(821)	(340)
Net income	\$ 13,336	\$ 15,750
Net income per share:		
Basic	\$ 0.14	\$ 0.16
Diluted	\$ 0.13	\$ 0.16
Weighted average shares outstanding:		
Basic	97,390	96,779
Diluted	99,264	99,998
Cash dividends on shares:		
Amount	\$ 2,919	\$ 2,913
Per share	\$ 0.03	\$ 0.03

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
*(In thousands, except share data)*

	March 31, 2006	December 31, 2005
	(Unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 319,020	\$ 333,990
Restricted cash	21,480	
Accounts receivable, net of allowance for doubtful accounts of \$2,489 in 2006 and \$2,300 in 2005	417,165	379,044
Contracts in progress with costs and estimated earnings exceeding related progress billings	137,803	157,096
Deferred income taxes	39,642	27,770
Other current assets	58,086	52,703
Total current assets	993,196	950,603
Property and equipment, net	144,831	137,718
Non-current contract retentions	13,762	10,414
Goodwill	229,813	230,126
Other intangibles	27,688	27,865
Other non-current assets	20,129	21,093
Total assets	\$1,429,419	\$1,377,819
<b>Liabilities</b>		
Notes payable	\$ 2,669	\$ 2,415
Current maturity of long-term debt	25,000	25,000
Accounts payable	245,643	259,365
Accrued liabilities	116,201	123,801
Contracts in progress with progress billings exceeding related costs and estimated earnings	401,345	346,122
Income taxes payable		1,940
Total current liabilities	790,858	758,643
Long-term debt	25,000	25,000
Other non-current liabilities	101,443	100,811
Deferred income taxes	3,424	2,989
Minority interest in subsidiaries	7,132	6,708
Total liabilities	927,857	894,151
<b>Redeemable Common Stock</b>	38,012	

**Shareholders' Equity**

Common stock, Euro .01 par value; shares authorized: 250,000,000 in 2006 and 2005; shares issued: 98,555,250 in 2006 and 98,466,426 in 2005;		
shares outstanding: 97,303,790 in 2006 and 98,133,416 in 2005	1,147	1,146
Additional paid-in capital	308,630	334,620
Retained earnings	201,128	188,400
Stock held in Trust	(4,658)	(15,464)
Treasury stock, at cost; 1,251,460 in 2006 and 333,010 in 2005	(26,999)	(6,448)
Accumulated other comprehensive loss	(15,698)	(18,586)
 Total shareholders' equity	 463,550	 483,668
 Total liabilities, redeemable common stock and shareholders' equity	 \$1,429,419	 \$1,377,819

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

**Table of Contents**CHICAGO BRIDGE & IRON COMPANY N.V.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS*(In thousands)***(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 13,336	\$ 15,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,611	5,594
Long-term incentive plan amortization	7,848	3,254
Loss on foreign currency hedge ineffectiveness	1,934	
Gain on sale of property and equipment	(90)	(102)
Excess tax benefits from share-based compensation	(15,966)	
Change in operating assets and liabilities (see below)	12,238	(17,854)
Net cash provided by operating activities	24,911	6,642
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(12,790)	(5,653)
Increase in restricted cash	(21,480)	
Proceeds from sale of property and equipment	355	403
Net cash used in investing activities	(33,915)	(5,250)
<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in notes payable	254	(2,223)
Purchase of treasury stock	(20,551)	(600)
Issuance of common stock	1,284	5,381
Dividends paid	(2,919)	(2,913)
Excess tax benefits from share-based compensation	15,966	
Net cash used in financing activities	(5,966)	(355)
(Decrease) increase in cash and cash equivalents	(14,970)	1,037
Cash and cash equivalents, beginning of the year	333,990	236,390
Cash and cash equivalents, end of the period	\$319,020	\$237,427

**Change in Operating Assets and Liabilities**

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Increase in receivables, net	\$ (38,121)	\$ (3,407)
Decrease (increase) in contracts in progress, net	74,516	(575)
Increase in non-current contract retentions	(3,348)	(1,177)
Decrease in accounts payable	(13,722)	(8,650)
Increase in other current assets	(3,524)	(123)
Increase (decrease) in income taxes payable and deferred income taxes	1,744	(816)
Decrease in accrued and other non-current liabilities	(6,244)	(1,621)
Decrease (increase) in other	937	(1,485)
Total	\$ 12,238	\$ (17,854)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.



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**CHICAGO BRIDGE & IRON COMPANY N.V.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**  
**(in thousands, except per share data)**  
**(Unaudited)**

**1. Significant Accounting Policies**

*Basis of Presentation* The accompanying unaudited condensed consolidated financial statements for Chicago Bridge & Iron Company N.V. ( CB&I ) have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. In the opinion of management, our unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our financial position as of March 31, 2006, our results of operations for each of the three-month periods ended March 31, 2006 and 2005, and our cash flows for each of the three-month periods ended March 31, 2006 and 2005. The condensed consolidated balance sheet at December 31, 2005 is derived from the December 31, 2005 audited consolidated financial statements. Although management believes the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations and cash flows for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our 2005 Annual Report on Form 10-K.

*Revenue Recognition* 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 and unapproved change order/claim recognition. The use of estimated cost to complete each contract, while the most widely recognized method used for percentage-of-completion accounting, 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.

Contract revenue reflects the original contract price adjusted for approved change orders and estimated minimum recoveries of unapproved change orders and claims. We recognize unapproved change orders and claims to the extent that related costs have been incurred when it is probable that they will result in additional contract revenue and their value can be reliably estimated. At March 31, 2006, we had outstanding unapproved change orders/claims recognized of \$47,285, net of reserves, of which \$43,500 is associated with a completed project in our Europe, Africa, Middle East ( EAME ) segment. Regarding the change orders/claims associated with the EAME segment project, we have received substantial cash advances. While we have received a settlement offer for more than the cash received through March 31, 2006, we believe our net exposure is approximately \$11,075, which represents the contract price less cash received to date. If in the future we determine collection of the \$43,500 of unapproved change orders/claims is not probable, it would result in a charge to earnings in the period such determination is made. Net outstanding unapproved change orders/claims recognized as of December 31, 2005 were \$48,520.

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Losses expected to be incurred on contracts in progress are charged to earnings in the period such losses are known. In the three month period ended March 31, 2006, there were no significant provisions for additional costs associated with contracts projected to be in a significant loss position at March 31, 2006. Charges to earnings in the comparable period of 2005 were \$2,321.

Cost and estimated earnings to date in excess of progress billings on contracts in process represent the cumulative revenue recognized less the cumulative billings to the customer. Any billed revenue that has not been collected is reported as accounts receivable. Unbilled revenue is reported as contracts in progress with costs and estimated earnings exceeding related progress billings on the condensed consolidated balance sheets. The timing of when we bill our customers is generally contingent on completion of certain phases of the work as stipulated in the contract. Progress billings in accounts receivable at March 31, 2006 and December 31, 2005 include retentions totaling \$59,915 and \$57,541, respectively, to be collected within one year. Contract retentions collectible beyond one year are included in non-current contract retentions on the condensed consolidated balance sheets. Cost of revenue includes direct contract costs such as material and construction labor, and indirect costs which are attributable to contract activity.

As discussed under Item 4. Controls and Procedures of this Form 10-Q, management identified certain control deficiencies in our internal controls relating to project accounting, and as a result, concluded that these deficiencies constituted a material weakness in our internal control over financial reporting. In light of this material weakness, we implemented processes and performed additional procedures designed to ensure that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (see Item 4. Controls and Procedures ).

*Foreign Currency* The nature of our business activities involves the management of various financial and market risks, including those related to changes in currency exchange rates. The effects of translating financial statements of foreign operations into our reporting currency are recognized in shareholders' equity in accumulated other comprehensive income/loss as cumulative translation adjustment, net of tax, which includes tax credits associated with the translation adjustment. Foreign currency exchange gains/losses are included in the condensed consolidated statements of income. The losses for the three months ended March 31, 2006 were primarily attributable to the mark-to-market of forward points that are deemed to be inherently ineffective and hedges where it became probable that their underlying forecasted transaction would not occur within their originally specified periods of time. Other amounts pertain to foreign currency exchange transactional gains and losses.

*New Accounting Standards* In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payment ( SFAS No. 123(R) ). This standard requires compensation costs related to share-based payment transactions to be recognized in the financial statements. Compensation cost will generally be based on the grant-date fair value of the equity or liability instrument issued, and will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) applies to all awards granted for fiscal years beginning after June 15, 2005, to awards modified, repurchased, or cancelled after that date and to the portion of outstanding awards for which the requisite service has not yet been rendered. For share-based awards that accelerate the vesting terms based upon retirement, SFAS No. 123(R) requires compensation cost to be recognized through the date that the employee first becomes eligible for retirement, rather than upon actual retirement, as was previously practiced. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under previous literature. We adopted SFAS No. 123(R) effective January 1, 2006, by applying the modified prospective method as prescribed under the statement as described in Note 2 to our consolidated financial statements.

Staff Accounting Bulletin 107 ( SAB 107 ) was issued in March of 2005 and provides guidance on implementing SFAS No. 123(R). SAB 107 impacts our accounting for stock held in trust upon the adoption of SFAS No. 123(R) as it requires for share-based payments that could require the employer to redeem the equity instruments for cash that the redemption amount should be classified outside of permanent equity (temporary equity). While the stock held in trust contains a put feature back to us, the stock held in trust is presented as permanent equity in our historical financial statements with an offsetting stock held in trust contra equity account as allowed under existing



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rules. SAB 107 also requires that if the share-based payments are based on fair value (which is our case) subsequent increases or decreases in the fair value do not impact income applicable to common shareholders but temporary equity should be recorded at fair value with changes in fair value reflected by offsetting impacts recorded directly to retained earnings. As a result, at adoption of SFAS No. 123(R), we recorded \$40,324 as redeemable common stock with an offsetting decrease to additional paid in capital to reflect the fair value of share-based payments that could require cash funding by us. As of March 31, 2006, the fair value of the redeemable common stock was \$38,012. Movements in the fair value of the redeemable common stock are recorded to retained earnings. There is no effect on our earnings per share calculation.

In October 2005, the FASB issued FASB Staff Position ( FSP ) FAS 123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FAS 123(R) ( FSP 123(R)-2 ). FSP 123(R)-2 provides guidance on the application of grant date as defined in SFAS No. 123(R). In accordance with this standard, a grant date of an award exists if a) the award is a unilateral grant and b) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period from the date of approval. We adopted this pronouncement effective January 1, 2006, and determined that it did not have a significant impact on our financial statements.

In November 2005, the FASB issued FSP FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards ( FSP 123(R)-3 ). FSP 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the beginning balance of the additional paid-in capital pool related to employee compensation and a simplified method to determine the subsequent impact of the additional paid-in-capital pool of employee awards that are fully vested and outstanding upon the adoption of SFAS No. 123(R). We are currently evaluating this transition method.

In February 2006, the FASB issued FSP FAS 123(R)-4, Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event. The FSP, which will become effective in the second quarter of 2006 for calendar year-end companies, requires an entity to classify employee stock options and similar instruments with contingent cash settlement features as equity awards under SFAS No. 123(R), provided that: (1) the contingent event that permits or requires cash settlement is not considered probable of occurring, (2) the contingent event is not within the control of the employee, and (3) the award includes no other features that would require liability classification. We do not believe that the adoption of this pronouncement will have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A replacement of APB Opinion No. 20 and FASB Statement No. 3 ( SFAS No. 154 ). SFAS No. 154 replaces APB Opinion No. 20,

Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for, and reporting of, a change in accounting principles. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. Under previous guidance, changes in accounting principle were recognized as a cumulative effect in the net income of the period of the change. SFAS No. 154 requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods financial statements, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a restatement. The provisions in SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our adoption of this standard effective January 1, 2006 has not had a material effect on our consolidated financial position, results of operations or cash flows.

In October 2005, the FASB issued FSP No. 13-1, Accounting for Rental Costs Incurred During a Construction Period ( FSP 13-1 ). Generally, the staff position requires companies to expense rental costs incurred during a construction period. FSP 13-1 is effective for fiscal years beginning after December 15, 2005. We adopted the new



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pronouncement effective January 1, 2006, and anticipate that the effect of applying FSP 13-1 will result in the acceleration of rental expense of approximately \$2,441 from future periods of the rental term into fiscal year 2006.

*Per Share Computations* Basic earnings per share ( EPS ) is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of dilutive securities, consisting of employee stock options/restricted shares/performance shares where performance criteria have been met and directors' deferred fee shares.

The following schedule reconciles the income and shares utilized in the basic and diluted EPS computations:

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net income	\$13,336	\$15,750
Weighted average shares outstanding - basic	97,390	96,779
Effect of stock options/restricted shares/performance shares	1,763	3,110
Effect of directors' deferred fee shares	111	109
Weighted average shares outstanding - diluted	99,264	99,998
Net income per share		
Basic	\$ 0.14	\$ 0.16
Diluted	\$ 0.13	\$ 0.16

**2. Stock Plans**

We have various types of stock-based compensation plans. These plans are administered by the Organization and Compensation Committee of our Board of Supervisory Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, and other provisions of the award. See note 12 of our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, for additional information related to these stock-based compensation plans. At March 31, 2006, shares available for future stock option grants to employees and directors under existing plans were 1,848,987.

Effective January 1, 2006, we adopted SFAS No. 123(R) utilizing the modified prospective transition method. Prior to the adoption of SFAS No. 123(R) we accounted for stock option grants in accordance with APB Opinion No. 25,

Accounting for Stock Issued to Employees (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants.

Under the modified prospective transition method, SFAS No. 123(R) applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Compensation cost recognized in fiscal year 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation ( SFAS No. 123 ), and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). As allowed under SFAS No. 123(R), prior periods were not restated to reflect the impact of adopting the new standard.

As a result of adopting SFAS No. 123(R) on January 1, 2006, our income before taxes, net income and basic and diluted earnings per share for the three months ended March 31, 2006, were \$2,583, \$1,731, and \$0.02 lower, respectively, than if we had continued to account for stock-based compensation under APB Opinion No. 25. This

decrease is primarily the result of recognizing compensation expense for performance-based awards based upon a grant date fair value rather than a current fair value as was previously done under the provisions of APB No. 25. As

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of March 31, 2006 there was \$13,357 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted-average period of 1.5 years. During the three months ended March 31, 2006 and 2005, we recognized \$7,850 and \$3,254, respectively, of share-based compensation as selling and administrative expense in the accompanying condensed consolidated statements of income. Upon adoption of SFAS No. 123(R), we recorded an immaterial cumulative effect from changing our policy from recognizing forfeitures as they occur to a policy of recognizing expense based on our expectation of the awards that will vest over the requisite service period for our restricted stock awards.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise prices of the options. In addition, we receive a tax deduction upon the vesting of restricted stock and performance shares for the excess of the price at the date of vesting over the grant date fair value of the award. Prior to adoption of SFAS No. 123(R), we reported these tax benefits as operating cash flows in our condensed consolidated statement of cash flows. In accordance with SFAS No. 123(R), we revised our condensed consolidated statement of cash flows presentation to report the benefits of tax deductions for share-based compensation in excess of recognized compensation cost as financing cash flows. For the three months ended March 31, 2006, \$15,966 of a tax benefit was reported as a financing cash flow rather than operating cash flow.

The following table illustrates the effect on operating results and per share information had the Company accounted for stock-based compensation in accordance with SFAS No. 123 for the three months ended March 31, 2005:

Net income:	
As reported	\$ 15,750
Add: Stock-based employee compensation reported in net income, net of taxes	1,969
Deduct: Stock-based employee compensation under the fair value method for all awards, net of taxes	(1,813)
Pro forma	\$ 15,906
Basic net income per share:	
As reported	\$ 0.16
Pro forma	\$ 0.16
Diluted net income per share:	
As reported	\$ 0.16
Pro forma	\$ 0.16

*Stock Options* Stock options are generally granted at the fair market value on the date of grant and expire after 10 years. Options granted to executive officers and other key employees typically vest over a three- to four-year period, while options granted to Supervisory Directors vest over a one-year period. The share-based expense for these awards was determined based on the calculated Black-Scholes fair value of the stock option at the date of grant applied to the total number of options that were anticipated to fully vest. Net cash proceeds from the exercise of stock options were \$198 for the three months ended March 31, 2006. The actual income tax benefit realized from stock option exercises is \$245 for the same period. The following table represents stock option activity for the three months ended March 31, 2006:

**Weighted  
Average**



	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value</b>
Outstanding options at beginning of year	3,207,433	\$ 6.80		
Granted	28,730	\$ 24.83		
Exercised	37,177	\$ 5.33		\$ 767
Outstanding options at end of period	3,198,986	\$ 6.98	5.4	\$ 54,445
Outstanding exercisable at end of period	2,527,119	\$ 5.98	5.0	\$ 45,550

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Using the Black-Scholes option-pricing model, the fair value of each option grant is estimated on the date of grant based on the following weighted-average assumptions:

	<b>March 31, 2006</b>	<b>2005</b>
Risk-free interest rate	4.60%	4.24%
Expected dividend yield	0.48%	0.53%
Expected volatility	42.66%	44.99%
Expected life in years	6	6
Weighted-Average grant-date fair value	\$ 11.42	\$ 10.64

The assumptions above are based on multiple factors, including historical exercise patterns, expected future exercising patterns and the historical volatility of our stock price.

*Restricted Shares* Our plans also allow for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned stock-based compensation related to these awards is being amortized to compensation expense over the period the restrictions lapse. Restricted shares granted to employees generally vest over four years and are recognized as compensation cost utilizing a graded vesting method, while restricted shares granted to directors vest over one year. The share-based expense for these awards was determined based on the market price of our stock at the date of grant applied to the total number of shares that were anticipated to fully vest.

During the three months ended March 31, 2006, 389,981 restricted shares were granted with a weighted-average grant-date fair value of \$23.80. During 2005, 163,000 restricted shares were granted with a weighted-average grant-date fair value of \$22.91. During the three months ended March 31, 2006, the total fair value of restricted shares vested was \$1,783. During 2005, the total fair value of shares vested was \$2,548. The following table represents restricted share activity for the three months ended March 31, 2006:

	<b>March 31, 2006</b>	<b>Weighted-Average Grant-Date Fair Value</b>
<b>Nonvested restricted stock</b>		
Nonvested restricted stock at beginning of year	2,774,443	\$ 5.79
Nonvested restricted stock granted	389,981	\$ 23.80
Nonvested restricted stock distributed	(2,557,177)	\$ 4.79
Nonvested restricted stock at end of period	607,247	\$ 21.57
<b>Directors' shares subject to restrictions</b>		
Directors' shares subject to restrictions at beginning of year	30,800	\$ 21.17
Directors' shares subject to restrictions at end of period	30,800	\$ 21.17

*Performance Shares* Performance shares generally vest over three years and are expensed ratably over the vesting term, subject to achievement of specific Company performance goals. The share-based expense for these awards was determined based on the market price of our stock at the date of grant applied to the total number of shares that were anticipated to fully vest. There have been no performance share grants during 2006. During 2005, 262,600 performance shares were granted with a weighted-average grant-date fair value of \$20.75.



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The changes in common stock, additional paid in capital, stock held in trust and treasury stock since December 31, 2005 primarily relate to activity associated with our stock plans. Effective February 6, 2006, a former executive received, pursuant to and as required by the Management Defined Contribution Plan dated March 26, 1997 ( Plan ), distribution of 2,485,352 restricted stock units from a rabbi trust. To satisfy our responsibility under the Plan for all applicable tax withholding, we withheld 901,532 shares, as treasury shares.

**3. Comprehensive Income**

Comprehensive income for the three months ended March 31, 2006 and 2005 is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net income	\$13,336	\$15,750
Other comprehensive (loss) income, net of tax:		
Currency translation adjustment	(219)	(1,475)
Change in unrealized loss on debt securities	19	27
Change in unrealized fair value of cash flow hedges *	3,088	(8,532)
Change in minimum pension liability adjustment		(19)
Comprehensive income	\$16,224	\$ 5,751

Accumulated other comprehensive loss reported on our balance sheet at March 31, 2006 includes the following, net of tax: \$14,991 of currency translation adjustment loss, \$56 of unrealized loss on debt securities, \$1,059 of unrealized fair value gain on cash flow hedges and \$1,710 of minimum pension liability adjustments.

\* Recorded under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ). Offsetting the unrealized gain/(loss) on cash flow hedges is an unrealized (loss)/gain on the underlying transactions, to be recognized when settled.

**4. Goodwill and Other Intangibles****Goodwill**

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*General* At March 31, 2006 and December 31, 2005, our goodwill balances were \$229,813 and \$230,126, respectively, attributable to the excess of the purchase price over the fair value of assets acquired relative to acquisitions within our North America and Europe, Africa, Middle East ( EAME ) segments.

The decrease in goodwill primarily relates to the impact of foreign currency translation and a reduction in accordance with SFAS No. 109, Accounting for Income Taxes, where tax goodwill exceeded book goodwill.

The change in goodwill by segment for the three months ended March 31, 2006 is as follows:

	North America	EAME	Total
Balance at December 31, 2005	\$203,032	\$27,094	\$230,126
Adjustments associated with:			
Foreign currency translation and tax goodwill in excess of book goodwill reduction	(436)	123	(313)
Balance at March 31, 2006	\$202,596	\$27,217	\$229,813

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*Impairment Testing* SFAS No. 142, Goodwill and Other Intangible Assets, states goodwill and indefinite-lived intangible assets are no longer amortized to earnings, but instead are reviewed for impairment at least annually via a two-phase process, absent any indicators of impairment. The first phase screens for impairment, while the second phase (if necessary) measures impairment. We have elected to perform our annual analysis during the fourth quarter of each year based upon goodwill and indefinite-lived intangible balances as of the beginning of the fourth quarter. Although no indicators of impairment have been identified during 2006, there can be no assurance that future goodwill or other intangible asset impairment tests will not result in a charge to earnings.

**Other Intangible Assets**

In accordance with SFAS No. 142, the following table provides information concerning our other intangible assets for the periods ended March 31, 2006 and December 31, 2005:

	<b>March 31, 2006</b>		<b>December 31, 2005</b>	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Technology (10 years)	\$ 1,276	\$ (511)	\$ 1,276	\$ (478)
Non-compete agreements (8 years)	3,100	(2,099)	3,100	(2,000)
Strategic alliances, customer contracts, patents (11 years)	1,866	(864)	1,866	(819)
Total	\$ 6,242	\$ (3,474)	\$ 6,242	\$ (3,297)
Unamortized intangible assets				
Tradenames	\$ 24,717		\$ 24,717	
Minimum Pension Liability Adjustment	203		203	
	\$ 24,920		\$ 24,920	

The changes in other intangibles relate to additional amortization expense.

**Table of Contents****5. Financial Instruments**

*Forward Contracts* At March 31, 2006, our forward contracts to hedge intercompany loans and certain operating exposures are summarized as follows:

<b>Currency Sold</b>	<b>Currency Purchased</b>	<b>Contract Amount <sup>(1)</sup></b>	<b>Weighted Average Contract Rate</b>
<b>Forward contracts to hedge intercompany loans: <sup>(2)</sup></b>			
U.S. Dollar	British Pound	\$ 54,387	0.57
U.S. Dollar	Canadian Dollar	\$ 19,985	1.14
U.S. Dollar	South African Rand	\$ 3,446	6.17
U.S. Dollar	Australian Dollar	\$ 10,261	1.33
<b>Forward contracts to hedge certain operating exposures: <sup>(3)</sup></b>			
U.S. Dollar	Euro	\$ 66,664	0.80
British Pound	U.S. Dollar	\$ 9,326	0.54
U.S. Dollar	Swiss Francs	\$ 3,683	1.25
U.S. Dollar	Japanese Yen	\$ 14,020	114.99
British Pound	Euro	£ 102,403	1.40
British Pound	Swiss Francs	£ 3,906	2.19
British Pound	Japanese Yen	£ 1,805	191.00

**(1)** Represents notional U.S. dollar equivalent at inception of contract, with the exception of forward contracts to sell: 102,403 British Pounds for 143,082 Euros, 3,906 British Pounds for 8,568 Swiss Francs, and 1,805 British Pounds for 344,760 Japanese Yen. These contracts are denominated in British Pounds and equate to approximately \$187,535 at March 31, 2006 .

(2) These contracts, for which we do not seek hedge accounting treatment under SFAS No. 133, generally mature within seven days of quarter-end and are marked-to-market through the condensed consolidated income statement, generally offsetting any translation gains/losses of the underlying transactions.

(3) Contracts, which hedge forecasted transactions and firm commitments, generally mature within three years of quarter-end and were designated as cash flow hedges under SFAS No. 133. However, changes in the timing or the amount of the expected cash flows being hedged resulted in certain hedges becoming ineffective during the three months ended March 31, 2006. The loss associated with these instruments change in fair value totaled \$1,934 and was



recognized within  
cost of revenue in  
the 2006  
condensed  
consolidated  
statement of  
income. There  
were no amounts  
excluded from our  
assessment of  
ineffectiveness. At  
March 31, 2006,  
the total notional  
amount exceeded  
the total present  
value of these  
contracts by  
\$5,424, net,  
including the  
foreign currency  
exchange loss  
related to  
ineffectiveness. Of  
the total  
mark-to-market,  
\$3,728 was  
recorded in other  
current assets,  
\$1,036 was  
recorded in other  
non-current assets,  
\$8,537 was  
recorded in  
accrued liabilities  
and \$1,651 was  
recorded in other  
non-current  
liabilities on the  
condensed  
consolidated  
balance sheet.

**Table of Contents****6. Retirement Benefits**

We previously disclosed in our financial statements for the year ended December 31, 2005, that in 2006 we expected to contribute \$3,973 and \$1,848 to our defined benefit and other postretirement plans, respectively. The following table provides contribution information for our defined benefit and postretirement plans as of March 31, 2006:

	<b>Defined Benefit Plans</b>	<b>Other Postretirement Benefits</b>
Contributions made through March 31, 2006	\$ 1,005	\$ 668
Remaining contributions expected for 2006	3,020	1,410
Total contributions expected for 2006	\$ 4,025	\$ 2,078

**Components of Net Periodic Benefit Cost**

<b>Three months ended March 31,</b>	<b>Defined Benefit Plans</b>		<b>Other Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 1,194	\$ 1,255	\$ 385	\$ 369
Interest cost	1,429	1,443	562	546
Expected return on plan assets	(1,908)	(1,721)		
Amortization of prior service costs	6	4	(32)	(67)
Recognized net actuarial loss	38	28	73	82
Net periodic benefit cost	\$ 759	\$ 1,009	\$ 988	\$ 930

**Table of Contents****7. Segment Information**

We manage our operations by four geographic segments: North America; Europe, Africa, Middle East; Asia Pacific; and Central and South America. Each geographic segment offers similar services.

The Chief Executive Officer evaluates the performance of these four segments based on revenue and income from operations. Each segment's performance reflects the allocation of corporate costs, which were based primarily on revenue. Intersegment revenue was not material.

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
North America	\$ 358,232	\$ 303,204
Europe, Africa, Middle East	213,879	120,547
Asia Pacific	47,711	37,736
Central and South America	26,774	17,296
Total revenue	\$ 646,596	\$ 478,783
<b>Income From Operations</b>		
North America	\$ 3,130	\$ 21,885
Europe, Africa, Middle East	15,967	687
Asia Pacific	444	1,938
Central and South America	623	552
Total income from operations	\$ 20,164	\$ 25,062

**8. Commitments and Contingencies**

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 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, personal injury or property damage claims will have a material adverse effect on our earnings or liquidity.

*Antitrust Proceedings* 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").

On June 12, 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

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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 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.

*Securities Class Action* As previously announced, 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 and alleges, among other things, that we materially overstated our financial results during the class period by misapplying percentage-of-completion accounting and did not follow our publicly stated revenue recognition policies.

Since the initial lawsuit, eleven other suits containing substantially similar allegations and with similar, but not exactly the same, class periods have been filed and have been consolidated in the Southern District of New York.

Under the initial scheduling order, a single Consolidated Amended Complaint is to be filed on or before June 19, 2006. Although we believe that we have meritorious defenses to the claims made in each of the above actions and intend to contest them vigorously, we do not anticipate filing a response until such time as the Consolidated Amended Complaint is filed.

*Asbestos Litigation* We are a defendant in lawsuits wherein plaintiffs allege exposure to asbestos due to work we may have performed at various locations. We have never been a manufacturer, distributor or supplier of asbestos products. As of March 31, 2006, we have been named a defendant in lawsuits alleging exposure to asbestos involving approximately 2,954 plaintiffs, and of those claims, approximately 480 claims were pending and 2,474 have been closed through dismissals or settlements. As of March 31, 2006, the claims alleging exposure to asbestos that have been resolved have been dismissed or settled for an average settlement amount per claim of approximately one thousand dollars. With respect to unasserted asbestos claims, we cannot identify a population of potential claimants with sufficient certainty to determine the probability of a loss and to make a reasonable estimate of liability, if any. We review each case on its own merits and make accruals based on the probability of loss and our ability to estimate the amount of liability and related expenses, if any. We do not currently believe that any unresolved asserted claims will have a material adverse effect on our future results of operations or financial position and at March 31, 2006, we had accrued \$1,078 for liability and related expenses. We are unable to quantify estimated recoveries for recognized and unrecognized contingent losses, if any, that may be expected to be recoverable through insurance, indemnification arrangements or other sources because of the variability in the

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coverage amounts, deductibles, limitations and viability of carriers with respect to our insurance policies for the years in question.

*Other* We were served with a subpoena for documents on August 15, 2005 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.

*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 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 the remainder of 2006 or 2007.

## **9. Financing Arrangements**

*Waivers to our Credit Agreement* As a result of a delay in furnishing financial information for the quarter ended September 30, 2005, we would have been in technical default of covenants relating to our revolving credit facility and our senior notes, had waivers not been obtained. On November 14, 2005, we obtained waivers from the bank group and senior noteholders, extending the deadline of our quarterly financial submissions until January 13, 2006. On January 13, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline until April 1, 2006. On March 30, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline of our quarterly and fiscal year end 2005 and first quarter 2006 financial submissions until May 31, 2006. On May 31, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline of our quarterly and fiscal year end 2005 and first quarter 2006 financial submissions until June 16, 2006 and extended the deadline for providing a three-year budget until September 30, 2006. Upon obtaining these waivers, we were in compliance with all debt covenants at March 31, 2006.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is provided to assist readers in understanding our financial performance during the periods presented and significant trends which may impact our future performance. This discussion should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included elsewhere in this quarterly report.

We are a global engineering, procurement and construction (EPC) company serving customers in a number of key industries including oil and gas; petrochemical and chemical; power; water and wastewater; and metals and mining. We have been helping our customers produce, process, store and distribute the world's natural resources for more than 100 years by supplying a comprehensive range of engineered steel structures and systems. We offer a complete package of design, engineering, fabrication, procurement, construction and maintenance services. 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. We have been continuously engaged in the engineering and construction industry since our founding in 1889.

**Results of Operations**

*New Business Taken/Backlog* During the three months ended March 31, 2006, new business taken, representing the value of new project commitments received during a given period, was \$872.4 million, compared with \$1.4 billion in the comparable 2005 period. These commitments are included in backlog until work is performed and revenue is recognized or until cancellation. New business during the quarter included a gas processing facility in Angola, a liquefied petroleum gas (LPG) storage tank project in the Middle East and process-related work in the United States. Major awards during the first three months of 2005 included two large LNG import terminals in the United Kingdom. We currently anticipate new business in 2006 to range between \$3.5 and \$4.0 billion.

Backlog increased \$160.4 million or 5% to \$3.4 billion at March 31, 2006 compared with the year-earlier period.

*Revenue* Revenue during the three months ended March 31, 2006 of \$646.6 million increased \$167.8 million, or 35% compared with the comparable period in 2005. Revenue grew \$55.0 million, or 18% in the North America segment as a result of a larger volume of process-related work in the United States. Revenue increased \$93.3 million or 77% in the Europe, Africa, Middle East (EAME) segment due mainly to continued progress on LNG projects in the United Kingdom. Revenue increased 26% in the Asia Pacific (AP) segment due to the continued ramp-up of LNG work in China, and was 55% higher in the Central and South America (CSA) segment as a result of higher backlog going into the year. We currently anticipate total revenue for 2006 will be between \$2.6 and \$2.9 billion.

*Gross Profit* Gross profit in the first quarter of 2006 was \$59.2 million, or 9.2% of revenue, compared with \$50.9 million, or 10.6%, for the same period in 2005. The 2006 and 2005 results were impacted by multiple key factors including the following:

As discussed in our 2005 Form 10-K, we increased forecasted construction costs to complete several projects, primarily in the U.S. The impact of the 2005 forecast adjustments reduced the overall level of profitability reported on these jobs in 2006. The ongoing impact of these adjustments issues is expected to be limited to certain projects in backlog, as escalation clauses, cost adjustments, or similar protections have been included in our bids for new projects.

During 2005, we reported significant incremental earnings from savings on several projects, primarily in the U.S. In 2006, we did not experience similar savings.

At March 31, 2006 we had outstanding unapproved change orders/claims recognized of \$47.3 million, net of reserves, of which \$43.5 million is associated with a completed project in our EAME segment. Regarding the change orders/claims associated with the EAME segment project, we have received substantial cash advances. While we have received a settlement offer for more than the cash received through March 31, 2006, we believe our

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net exposure is approximately \$11.1 million, which represents the contract price less cash received to date. If in the future we determine collection of the \$43.5 million of unapproved change orders/claims is not probable, it would result in a charge to earnings in the period such determination is made. Net outstanding unapproved change orders/claims recognized as of December 31, 2005 were \$48.5 million.

*Selling and Administrative Expenses* Selling and administrative expenses for the three months ended March 31, 2006 were \$38.9 million, or 6.0% of revenue, compared with \$25.5 million, or 5.3% of revenue, for the comparable period in 2005. The absolute dollar increase compared with 2005 primarily relates to the following factors:

Increased incentive program costs, including, pursuant to SFAS No. 123(R), the effect of accelerating stock compensation charges for employees becoming eligible for retirement during the award's vesting period;

Professional fees, including legal fees associated with concluding the Audit Committee inquiry, incremental fees to complete the 2005 annual audit and fees relating to the proceedings involving the U.S. Federal Trade Commission;

A severance agreement and the effect of accelerating stock compensation charges associated with the departure of former executives; and

A retention bonus for an executive.

We adopted SFAS No. 123(R) on January 1, 2006 by applying the modified prospective method. Prior to adoption, we accounted for our share-based compensation awards using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. As of March 31, 2006, there was \$13.4 million of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted-average period of 1.5 years. See Note 2 to our condensed consolidated financial statements for more information related to our adoption of SFAS No. 123(R).

*Income from Operations* Income from operations for the first quarter of 2006 was \$20.2 million, compared with \$25.1 million for the comparable 2005 period. As described above, our results were unfavorably impacted by higher selling and administrative costs and lower gross profit levels, partially offset by increased revenue volume.

### North America

Our North America segment was negatively impacted by lower gross profit levels and a significant portion of the higher selling and administrative costs outlined above. Partially offsetting the overall decrease was an increase in revenue over the prior year quarter.

### EAME

Our EAME segment reported substantially higher operating income over first quarter 2005 due primarily to a significant increase in revenue.

### Asia Pacific

Our Asia Pacific segment was negatively impacted by recognition of potentially unrecoverable costs on a project in Australia.

*Interest Expense and Interest Income* Interest expense for the first quarter 2006 increased \$0.2 million from the prior year to \$2.4 million, primarily due to fees associated with waivers obtained to extend the deadline of our quarterly and fiscal year end 2005 and first quarter 2006 financial submissions, partially offset by lower interest on our senior notes due to a scheduled principal installment payment of \$25.0 million on our senior notes, in the third quarter of 2005. Interest income for the first quarter 2006 increased \$1.5 million compared to the prior year due to higher short-term investment levels and higher associated yields.

*Income Tax Expense* Income tax expense for the three months ended March 31, 2006 and 2005 was \$6.5 million, or 31.4% of pre-tax income, and \$8.1 million, or 33.5% of pre-tax income, respectively.



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*Minority Interest in Income* Minority interest in income for the three months ended March 31, 2006 was \$0.8 million compared with \$0.3 million for the comparable period in 2005. The change compared with 2005 primarily relates to our minority partner's share of higher operating income for certain contracting entities within our EAME segment.

### **Liquidity and Capital Resources**

As a result of a delay in furnishing financial information for the quarter ended September 30, 2005, we would have been in technical default of our revolving credit facility covenants and our senior notes, had waivers not been obtained. On November 14, 2005, we obtained waivers from the bank group and senior noteholders, extending the deadline of our quarterly financial submissions until January 13, 2006. On January 13, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline until April 1, 2006. On March 30, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline of our quarterly and fiscal year end 2005 and first quarter 2006 financial submissions until May 31, 2006. On May 31, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline of our quarterly and fiscal year-end 2005 and first quarter 2006 financial submissions until June 16, 2006 and extended the deadline for providing a three-year budget until September 30, 2006. Upon obtaining these waivers, we were in compliance with all debt covenants at March 31, 2006.

At March 31, 2006, cash and cash equivalents totaled \$319.0 million.

**Operating** During the first three months of 2006, our operations generated \$24.9 million of cash flows, as profitability and decreased working capital levels were partially offset by the \$16.0 million reclassification of benefits of tax deductions in excess of recognized compensation cost from an operating to a financing cash flow as required by SFAS No. 123(R).

**Investing** In the first three months of 2006 we incurred \$12.8 million for capital expenditures. Also during the first three months of 2006, we provided \$21.5 million of cash collateral to support a bank guarantee issued under a U.K. banking facility, as discussed below. For 2006, capital expenditures are anticipated to be in the \$50.0 to \$55.0 million range.

We continue to evaluate and selectively pursue opportunities for expansion of our business through acquisition of complementary businesses. These acquisitions, if they arise, may involve the use of cash or may require debt or equity financing.

**Financing** Net cash flows utilized in financing activities were \$6.0 million due primarily to \$20.6 million of cash payments for withholding taxes on taxable share distributions, being partly offset by the \$16.0 million reclassification of benefits of tax deductions in excess of recognized compensation cost, as discussed above. Uses of cash also included \$2.9 million for the payment of dividends. Our 2006 dividend is expected to be in the \$11.0 to \$12.0 million range. Cash provided by financing activities included \$1.3 million from the issuance of common stock, primarily from the exercise of stock options.

Effective February 6, 2006, a former executive received, pursuant to and as required by the Management Defined Contribution Plan dated March 26, 1997 ( "Plan" ), distribution of approximately 2.5 million restricted stock units from a rabbi trust. To satisfy our responsibility under the Plan for all applicable tax withholding, we withheld approximately 0.9 million shares, as treasury shares, and utilized \$20.1 million of cash to pay withholding tax on this taxable share distribution.

Our primary internal source of liquidity is cash flow generated from operations. Capacity under a revolving credit facility is also available, if necessary, to fund operating or investing activities. We have a five-year \$600.0 million, committed and unsecured revolving credit facility, which terminates in May 2010. As of March 31, 2006, no direct borrowings were outstanding under the revolving credit facility, but we had issued \$306.5 million of letters of credit and had \$293.5 million of available capacity under this facility. The facility contains certain restrictive covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum net worth level, among other restrictions. The facility also places restrictions on us with regard to subsidiary

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indebtedness, sales of assets, liens, investments, type of business conducted, and mergers and acquisitions, among other restrictions.

We also have various short-term, uncommitted revolving credit facilities across several geographic regions of approximately \$567.0 million. These facilities are generally used to provide letters of credit or bank guarantees to customers in the ordinary course of business to support advance payments, as performance guarantees or in lieu of retention on our contracts. At March 31, 2006, we had available capacity of \$210.4 million under these uncommitted facilities. In addition to providing letters of credit or bank guarantees, we also issue surety bonds in the ordinary course of business to support our contract performance.

As previously referenced, we issue letters of credit and bank guarantees in the ordinary course of business for performance, advance payments from the customer, or in lieu of retention. As of March 31, 2006, we had provided \$21.5 million of cash collateral as support for a bank guarantee issued under a U.K. banking facility. Under the terms of the collateral agreement, the cash will remain restricted until the guarantee has terminated, expired or has been replaced by another bank. We intend to replace or remove the bank guarantee, thereby removing the restriction on our cash.

Our senior notes also contain a number of restrictive covenants, including a maximum leverage ratio and minimum levels of net worth and debt and fixed charge ratios, among other restrictions. The notes also place restrictions on us with regard to investments, other debt, subsidiary indebtedness, sales of assets, liens, nature of business conducted and mergers, among other restrictions.

As of March 31, 2006, the following commitments were in place to support our ordinary course obligations:

<i>(In thousands)</i>	Total	<b>Amounts of Commitments by Expiration Period</b>			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Letters of Credit/Bank Guarantees	\$ 663,141	\$ 343,698	\$ 139,502	\$ 169,916	\$ 10,025
Surety Bonds	321,885	244,991	70,113	6,781	
Total Commitments	\$ 985,026	\$ 588,689	\$ 209,615	\$ 176,697	\$ 10,025

Note: Includes \$40,604 of letters of credit and surety bonds issued in support of our insurance program.

We believe cash on hand, funds generated by operations, amounts available under existing credit facilities and external sources of liquidity, such as the issuance of debt and equity instruments, will be sufficient to finance capital expenditures, the settlement of commitments and contingencies (as fully described in Note 8 to our condensed consolidated financial statements) and working capital needs for the foreseeable future. However, there can be no assurance that such funding will be available, as our ability to generate cash flows from operations and our ability to access funding under the revolving credit facility may be impacted by a variety of business, economic, legislative, financial and other factors which may be outside of our control. Additionally, while we currently have significant, uncommitted bonding facilities, primarily to support various commercial provisions in our engineering and construction contracts, a termination or reduction of these bonding facilities could result in the utilization of letters of credit in lieu of performance bonds, thereby reducing our available capacity under the revolving credit facility. Although we do not anticipate a reduction or termination of the bonding facilities, there can be no assurance that such facilities will be available at reasonable terms to service our ordinary course obligations.

We are a defendant in a number of lawsuits arising in the normal course of business and we have in place appropriate insurance coverage for the type of work that we have performed. As a matter of standard policy, we review our litigation accrual quarterly and as further information is known on pending cases, increases or decreases, as appropriate, may be recorded in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 5, Accounting for Contingencies.

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For a discussion of pending litigation, including lawsuits wherein plaintiffs allege exposure to asbestos due to work we may have performed, matters involving the U.S. Federal Trade Commission and securities class action lawsuits against us, see Note 8 to our condensed consolidated financial statements.

### **Off-Balance Sheet Arrangements**

We use operating leases for facilities and equipment when they make economic sense. In 2001, we entered into a sale (for approximately \$14.0 million) and leaseback transaction of our Plainfield, Illinois administrative office with a lease term of 20 years, which is accounted for as an operating lease. Rentals under this and all other lease commitments are reflected in rental expense.

We have no other significant off-balance sheet arrangements.

### **New Accounting Standards**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payment ( SFAS No. 123(R) ). This standard requires compensation costs related to share-based payment transactions to be recognized in the financial statements. Compensation cost will generally be based on the grant-date fair value of the equity or liability instrument issued, and will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) applies to all awards granted for fiscal years beginning after June 15, 2005, to awards modified, repurchased, or cancelled after that date and to the portion of outstanding awards for which the requisite service has not yet been rendered. For share-based awards that accelerate the vesting terms based upon retirement, SFAS No. 123(R) requires compensation cost to be recognized through the date that the employee first becomes eligible for retirement, rather than upon actual retirement, as was previously practiced. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under previous literature. We adopted SFAS No. 123(R) effective January 1, 2006, by applying the modified prospective method as prescribed under the statement, as described in Note 2 to our consolidated financial statements.

Staff Accounting Bulletin 107 ( SAB 107 ) was issued in March of 2005 and provides guidance on implementing SFAS No. 123(R). SAB 107 impacts our accounting for stock held in trust upon the adoption of SFAS No. 123(R) as it requires for share-based payments that could require the employer to redeem the equity instruments for cash that the redemption amount should be classified outside of permanent equity (temporary equity). While the stock held in trust contains a put feature back to us, the stock held in trust is presented as a permanent equity in our historical financial statements with an offsetting stock held in trust contra equity account as allowed under existing rules. SAB 107 also requires that if the share-based payments are based on fair value (which is our case) subsequent increases or decreases in the fair value do not impact income applicable to common shareholders but temporary equity should be recorded at fair value with changes in fair value reflected by offsetting impacts recorded directly to retained earnings. As a result, at adoption of SFAS No. 123(R), we recorded \$40.3 million as redeemable common stock with an offsetting decrease to additional paid in capital to reflect the fair value of share-based payments that could require cash funding by us. As of March 31, 2006, the fair value of the redeemable common stock was \$38.0 million. Movements in the fair value of the redeemable common stock are recorded to retained earnings. There is no effect on our earnings per share calculation.

In October 2005, the FASB issued FASB Staff Position ( FSP ) FAS 123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FAS 123(R) ( FSP 123(R)-2 ). FSP 123(R)-2 provides guidance on the application of grant date as defined in SFAS No. 123(R). In accordance with this standard, a grant date of an award exists if a) the award is a unilateral grant and b) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period from the date of approval. We adopted this pronouncement effective January 1, 2006, and determined that it did not have a significant impact on our financial statements.

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In November 2005, the FASB issued FSP FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards ( FSP 123(R)-3 ). FSP 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the beginning balance of the additional paid-in capital pool related to employee compensation and a simplified method to determine the subsequent impact of the additional paid-in-capital pool of employee awards that are fully vested and outstanding upon the adoption of SFAS No. 123(R). We are currently evaluating this transition method.

In February 2006, the FASB issued FSP FAS 123(R)-4, Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event. The FSP, which will become effective in the second quarter of 2006 for calendar year-end companies, requires an entity to classify employee stock options and similar instruments with contingent cash settlement features as equity awards under SFAS No. 123(R), provided that: (1) the contingent event that permits or requires cash settlement is not considered probable of occurring, (2) the contingent event is not within the control of the employee, and (3) the award includes no other features that would require liability classification. We do not believe that the adoption of this pronouncement will have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A replacement of APB Opinion No. 20 and FASB Statement No. 3 ( SFAS No. 154 ). SFAS No. 154 replaces APB Opinion No. 20,

Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for, and reporting of, a change in accounting principles. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. Under previous guidance, changes in accounting principle were recognized as a cumulative effect in the net income of the period of the change. SFAS No. 154 requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods financial statements, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a restatement. The provisions in SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our adoption of this standard effective January 1, 2006 has not had a material effect on our consolidated financial position, results of operations or cash flows.

In October 2005, the FASB issued FSP No. 13-1, Accounting for Rental Costs Incurred During a Construction Period ( FSP 13-1 ). Generally, the staff position requires companies to expense rental costs incurred during a construction period. FSP 13-1 is effective for fiscal years beginning after December 15, 2005. We adopted the new pronouncement effective January 1, 2006, and anticipate that the effect of applying FSP 13-1 will result in the acceleration of rental expense of approximately \$2.4 million from future periods of the rental term into fiscal year 2006.

### **Critical Accounting Estimates**

The discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Our management has discussed the development and selection of our critical accounting estimates with the Audit Committee of our Supervisory Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

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**Revenue Recognition** 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 and unapproved change order/claim recognition. The use of estimated cost to complete each contract, while the most widely recognized method used for percentage-of-completion accounting, 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.

Contract revenue reflects the original contract price adjusted for approved change orders and estimated minimum recoveries of unapproved change orders and claims. We recognize unapproved change orders and claims to the extent that related costs have been incurred when it is probable that they will result in additional contract revenue and their value can be reliably estimated. At March 31, 2006, we had outstanding unapproved change orders/claims recognized of \$47.3 million, net of reserves, of which \$43.5 million is associated with a completed project in our EAME segment. Regarding the change orders/claims associated with the EAME segment project, we have received substantial cash advances. While we have received a settlement offer for more than the cash received through March 31, 2006, we believe our net exposure is approximately \$11.1 million, which represents the contract price less cash received to date. If in the future we determine collection of the \$43.5 million of unapproved change orders/claims is not probable, it would result in a charge to earnings in the period such determination is made. Net outstanding unapproved change orders/claims recognized as of December 31, 2005 were \$48.5 million.

Losses expected to be incurred on contracts in progress are charged to earnings in the period such losses are known. In the three month period ended March 31, 2006, there were no charges to earnings associated with provisions for additional costs associated with contracts projected to be in a significant loss position at March 31, 2006. Charges to earnings in the comparable period of 2005 were \$2.3 million.

**Credit Extension** We extend credit to customers and other parties in the normal course of business only after a review of the potential customer's creditworthiness. Additionally, management reviews the commercial terms of all significant contracts before entering into a contractual arrangement. We regularly review outstanding receivables and provide for estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves, management makes judgments regarding the parties' ability to make required payments, economic events and other factors. As the financial condition of these parties changes, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

**Financial Instruments** Although we do not engage in currency speculation, we periodically use forward contracts to mitigate certain operating exposures, as well as hedge intercompany loans utilized to finance non-U.S. subsidiaries. Forward contracts utilized to mitigate operating exposures are generally designated as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). Therefore, gains and losses associated with marking highly effective instruments to market are included in accumulated other comprehensive loss on the condensed consolidated balance sheets, while the gains and losses associated with instruments deemed ineffective during the period were recognized within cost of revenue in the condensed consolidated statements of income. Additionally, gains or losses on forward contracts to hedge intercompany loans are included within cost of revenue in the condensed consolidated statements of income. Our other financial instruments are not significant.

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**Income Taxes** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The final realization of the deferred tax asset depends on our ability to generate sufficient taxable income of the appropriate character in the future and in appropriate jurisdictions. Under the guidance of SFAS No. 5, we provide for income taxes in situations where we have and have not received tax assessments. Taxes are provided in those instances where we consider it probable that additional taxes will be due in excess of amounts reflected in income tax returns filed worldwide. As a matter of standard policy, we continually review our exposure to additional income taxes due and as further information is known, increases or decreases, as appropriate, may be recorded in accordance with SFAS No. 5.

**Estimated Reserves for Insurance Matters** We maintain insurance coverage for various aspects of our business and operations. However, we retain a portion of anticipated losses through the use of deductibles and self-insured retentions for our exposures related to third-party liability and workers' compensation. Management regularly reviews estimates of reported and unreported claims through analysis of historical and projected trends, in conjunction with actuaries and other consultants, and provides for losses through insurance reserves. As claims develop and additional information becomes available, adjustments to loss reserves may be required. If actual results are not consistent with our assumptions, we may be exposed to gains or losses that could be material.

**Recoverability of Goodwill** Effective January 1, 2002, we adopted SFAS No. 142 Goodwill and Other Intangible Assets, which states that goodwill and indefinite-lived intangible assets are no longer to be amortized but are to be reviewed annually for impairment. The goodwill impairment analysis required under SFAS No. 142 requires us to allocate goodwill to our reporting units, compare the fair value of each reporting unit with our carrying amount, including goodwill, and then, if necessary, record a goodwill impairment charge in an amount equal to the excess, if any, of the carrying amount of a reporting unit's goodwill over the implied fair value of that goodwill. The primary method we employ to estimate these fair values is the discounted cash flow method. This methodology is based, to a large extent, on assumptions about future events which may or may not occur as anticipated, and such deviations could have a significant impact on the estimated fair values calculated. These assumptions include, but are not limited to, estimates of future growth rates, discount rates and terminal values of reporting units. Our goodwill balance at March 31, 2006, was \$229.8 million.

**Forward-Looking Statements**

This quarterly report on Form 10-Q contains forward-looking statements. You should read carefully any statements containing the words expect, believe, anticipate, project, estimate, predict, intend, should, could, may, or similar expressions or the negative of any of these terms.

Forward-looking statements involve known and unknown risks and uncertainties. In addition to the material risks described in Item 1A. Risk Factors, as set forth in our Form 10-K for the year ended December 31, 2005 filed with the Securities Exchange Commission, that may cause our actual results, performance or achievements to be materially different from those expressed or implied by any forward-looking statements, the following factors could also cause our results to differ from such statements:

our ability to realize cost savings from our expected execution performance of contracts;

the uncertain timing and the funding of new contract awards, and project cancellations and operating risks;

cost overruns on fixed price, target price or similar contracts;

risks associated with percentage-of-completion accounting;

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our ability to settle or negotiate unapproved change orders and claims;

changes in the costs or availability of, or delivery schedule for, components, materials, labor or subcontractors;

adverse impacts from weather may affect our performance and timeliness of completion, which could lead to increased costs and affect the costs or availability of, or delivery schedule for, components, materials, labor or subcontractors;

increased competition;

fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;

lower than expected activity in the hydrocarbon industry, demand from which is the largest component of our revenue;

lower than expected growth in our primary end markets, including but not limited to LNG and clean fuels;

risks inherent in our acquisition strategy and our ability to obtain financing for proposed acquisitions;

our ability to integrate and successfully operate acquired businesses and the risks associated with those businesses;

adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, including pending securities class action litigation, and the potential effect on our business, financial condition and results of operations;

the ultimate outcome or effect of the pending Federal Trade Commission order on our business, financial condition and results of operations;

two material weaknesses have been identified in our internal control over financial reporting, which could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis;

lack of necessary liquidity to finance expenditures prior to the receipt of payment for the performance of contracts and to provide bid and performance bonds and letters of credit securing our obligations under our bids and contracts;

proposed and actual revisions to U.S. and non-U.S. tax laws, and interpretation of said laws, and U.S. tax treaties with non-U.S. countries (including the Netherlands), that seek to increase income taxes payable;

political and economic conditions including, but not limited to, war, conflict or civil or economic unrest in countries in which we operate; and

a downturn or disruption in the economy in general.

Although we believe the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future performance or results. We are not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should consider these risks when reading any forward-looking statements.





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

We are exposed to market risk from changes in foreign currency exchange rates, which may adversely affect our results of operations and financial condition. One exposure to fluctuating exchange rates relates to the effects of translating the financial statements of our non-U.S. subsidiaries, which are denominated in currencies other than the U.S. dollar, into the U.S. dollar. The foreign currency translation adjustments are recognized in shareholders' equity in accumulated other comprehensive loss as cumulative translation adjustment, net of any applicable tax. We generally do not hedge our exposure to potential foreign currency translation adjustments.

Another form of foreign currency exposure relates to our non-U.S. subsidiaries' normal contracting activities. We generally try to limit our exposure to foreign currency fluctuations in most of our engineering, procurement and construction contracts through provisions that require customer payments in U.S. dollars or other currencies corresponding to the currency in which costs are incurred. As a result, we generally do not need to hedge foreign currency cash flows for contract work performed. However, where construction contracts do not contain foreign currency provisions, we generally use forward exchange contracts to hedge foreign currency exposure of forecasted transactions and firm commitments. The gains and losses on these contracts are intended to offset changes in the value of the related exposures. However, certain of these hedges became ineffective during the year as it became probable that their underlying forecasted transaction would not occur within their originally specified periods of time. The loss associated with these instruments' change in fair value totaled \$1.9 million and was recognized within cost of revenue in the condensed consolidated statement of income. As of March 31, 2006, the notional amount of cash flow hedge contracts outstanding was \$262.6 million, and the total notional amount exceeded the total present value of these contracts by approximately \$5.4 million. The terms of these contracts extend up to three years.

In circumstances where intercompany loans and/or borrowings are in place with non-U.S. subsidiaries, we will also use forward contracts which generally offset any translation gains/losses of the underlying transactions. If the timing or amount of foreign-denominated cash flows vary, we incur foreign exchange gains or losses, which are included within cost of revenue in the condensed consolidated statements of income. We do not use financial instruments for trading or speculative purposes.

The carrying value of our cash and cash equivalents, accounts receivable, accounts payable and notes payable approximates their fair values because of the short-term nature of these instruments. See Note 5 to our condensed consolidated financial statements for quantification of our financial instruments.

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

*Disclosure Controls and Procedures* Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are controls and other procedures that are designed to provide reasonable assurance that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ( CEO ) and acting Chief Financial Officer ( CFO ), as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Form 10-Q, our management, with the participation of our CEO and our acting CFO, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2006. In making this evaluation, our management considered the material weaknesses discussed below and based on this evaluation, our CEO and acting CFO concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of March 31, 2006.

In light of the material weaknesses described below, we delayed filing our third quarter and annual audited 2005 as well as our first quarter 2006 financial statements and performed additional analyses and other procedures to determine that our condensed consolidated financial statements included in this Form 10-Q were prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). These measures included, among other things, an extensive review of certain of our existing contracts to ensure proper reporting of financial performance. As a result of these and other expanded procedures, we concluded that the condensed consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.



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*Changes in Internal Controls* Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our 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 purposes in accordance with accounting principles generally accepted in the United States of America.

Our 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 purposes in accordance with generally accepted accounting principles. Our 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.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Our evaluation was based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our principal executive officer and principal financial officer concluded our internal control over financial reporting was not effective as of March 31, 2006. A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management concluded we had the following two material weaknesses in our internal control over financial reporting as of March 31, 2006:

1. **Control Environment** An entity level material weakness existed related to the control environment component of internal control over financial reporting. The ineffective control environment related to management communication and actions that, in certain instances, overly emphasized meeting earnings targets resulting in or contributing to the lack of adherence to existing internal control procedures and U.S. GAAP. Additionally, we did not provide adequate support and resources at appropriate levels to prevent and detect lack of compliance with our existing policies and procedures. This material weakness could affect our ability to provide accurate financial information and it specifically resulted in certain adjustments to the draft financial statements for the third quarter.
2. **Project Accounting** A material weakness existed related to controls over project accounting. On certain projects, cost estimates were not updated to reflect current information and insufficient measures were taken to independently verify uniform and reliable cost estimates by certain field locations, and on some contracts revenues were initially recorded on change orders/claims without proper support or verification. Additionally, insufficient measures were taken to determine that when one Company subsidiary subcontracts a portion of a customer contract to another subsidiary that the profit margin on the subcontract was consistent with the profit margin on the overall contract with the customer and intercompany profit was eliminated as required by U.S. GAAP. This material weakness could affect project related accounts, and it specifically resulted in adjustments to revenue and cost of sales on certain contracts in connection with our restatement of

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previously reported financial statements for the second quarter of 2005 and in connection with our preparation of draft financial statements for the third quarter of 2005.

Included in our system of internal control are written policies, an organizational structure providing division of responsibilities, the selection and training of qualified personnel and a program of financial and operations reviews by our professional staff of corporate auditors. There were no changes in our internal controls over financial reporting that occurred during the three-month period ended March 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, during the three month period ended December 31, 2005, and continuing through the date of this filing, we evaluated and where necessary adjusted, and in some instances, implemented, compensating internal controls and will continue to monitor and where required remediate controls in an ongoing process to strengthen and improve the internal control over financial reporting as well as the level of assurance regarding the accuracy of our financial information. We have identified the following steps to enhance reasonable assurance of achieving our desired control objectives:

### **Control Environment**

Separate the functions of procurement and project controls from operations in a new organizational structure with an independent reporting line.

Reiterate the necessity to provide continuing education of risks and responsibilities required of a public company for executive and business unit management.

Increase the visibility, role and involvement of the compliance program and related processes.

Emphasize compliance with applicable policies and internal controls through management training and accountability at all levels.

Install new upper and mid-level managers with demonstrated commitment to encouraging independent and thorough analysis of project cost and claim estimation.

Separate the positions of CEO and Chairman of the Board.

### **Project Accounting**

Assign responsibility to a project controls function to proactively document, expedite and communicate the activities and outcomes of the project change management process.

Assign responsibility to a project controls function to proactively review, analyze and forecast project costs independently from operations.

Enhance operational and financial review process, at the business unit level, for all projects worldwide.

Reiterate to all financial controllers the requirements of Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ( SOP 81-1 ).

Emphasize need to monitor compliance with policies and internal controls through internal audit and financial compliance function, periodic reviews and audits.

Develop company or corporate level controls to monitor significant projects on a periodic basis.

Management recognizes that many of the enhancements require continual monitoring and evaluation for effectiveness, which will depend on maintaining a strong internal audit and financial compliance function. The development of these actions has been an evolving and iterative process and will continue as we evaluate our internal controls over financial reporting.

Management will review progress on these activities on a consistent and ongoing basis at the CEO level, across the senior management team and in conjunction with our Audit Committee and Supervisory Board. We also plan on taking additional steps to elevate company awareness and communications of these important issues through formal channels such as company meetings, departmental meetings and training.

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### **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

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 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, personal injury or property damage claims will have a material adverse effect on our earnings or liquidity.

*Antitrust Proceedings* 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* ).

On June 12, 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 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 definitely 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.

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*Securities Class Action* As previously announced, 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 and alleges, among other things, that we materially overstated our financial results during the class period by misapplying percentage-of-completion accounting and did not follow our publicly stated revenue recognition policies.

Since the initial lawsuit, eleven other suits containing substantially similar allegations and with similar, but not exactly the same, class periods have been filed and have been consolidated in the Southern District of New York.

Under the initial scheduling order, a single Consolidated Amended Complaint is to be filed on or before June 19, 2006. Although we believe that we have meritorious defenses to the claims made in each of the above actions and intend to contest them vigorously, we do not anticipate filing a response until such time as the Consolidated Amended Complaint is filed.

*Asbestos Litigation* We are a defendant in lawsuits wherein plaintiffs allege exposure to asbestos due to work we may have performed at various locations. We have never been a manufacturer, distributor or supplier of asbestos products. As of March 31, 2006, we have been named a defendant in lawsuits alleging exposure to asbestos involving approximately 2,954 plaintiffs, and of those claims, approximately 480 claims were pending and 2,474 have been closed through dismissals or settlements. As of March 31, 2006, the claims alleging exposure to asbestos that have been resolved have been dismissed or settled for an average settlement amount per claim of approximately one thousand dollars. With respect to unasserted asbestos claims, we cannot identify a population of potential claimants with sufficient certainty to determine the probability of a loss and to make a reasonable estimate of liability, if any. We review each case on its own merits and make accruals based on the probability of loss and our ability to estimate the amount of liability and related expenses, if any. We do not currently believe that any unresolved asserted claims will have a material adverse effect on our future results of operations or financial position and at March 31, 2006, we had accrued \$1.1 million for liability and related expenses. We are unable to quantify estimated recoveries for recognized and unrecognized contingent losses, if any, that may be expected to be recoverable through insurance, indemnification arrangements or other sources because of the variability in the coverage amounts, deductibles, limitations and viability of carriers with respect to our insurance policies for the years in question.

*Other* We were served with a subpoena for documents on August 15, 2005 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.

*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 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.

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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 the remainder of 2006 or 2007.

Item 1A. Risk Factors

No changes from Form 10-K filed on May 31, 2006.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

**Senior Executive Changes** Effective February 3, 2006, our Supervisory Board announced the terminations of Gerald M. Glenn as Chairman, President and Chief Executive Officer, and Robert B. Jordan as Executive Vice President and Chief Operating Officer. The Supervisory Board elected Philip K. Asherman as President and Chief Executive Officer and Jerry H. Ballengee as non-executive Chairman. On February 14, 2006, Richard A. Byers resigned as Vice President and acting Chief Financial Officer and Richard E. Goodrich was named acting Chief Financial Officer. On May 2, 2006, we executed an Agreement and Mutual Release with Mr. Glenn.

Item 6. Exhibits

(a) Exhibits

10.1<sup>(2)</sup> Note Purchase Agreement dated as of July 1, 2001

(a)<sup>(5)</sup> Limited Waiver dated as of November 14, 2005 to the Note Purchase Agreement dated July 1, 2001

(b)<sup>(6)</sup> Limited Waiver dated as of January 13, 2006 to the Note Purchase Agreement dated July 1, 2001

(c)<sup>(9)</sup> Limited Waiver dated as of March 30, 2006 to the Note Purchase Agreement dated July 1, 2001

(d)<sup>(11)</sup> Limited Waiver dated as of May 30, 2006 to the Note Purchase Agreement dated July 1, 2001

10.2<sup>(3)</sup> Amended and Restated Five-Year Revolving Credit Facility Agreement dated May 12, 2005

(a)<sup>(5)</sup> Waiver dated as of November 14, 2005 to the Amended and Restated Five-Year Credit Agreement

(b)<sup>(6)</sup> Waiver dated as of January 13, 2006 to the Amended and Restated Five-Year Credit Agreement

(c)<sup>(9)</sup> Waiver dated as of March 30, 2006 to the Amended and Restated Five-Year Credit Agreement

(d)<sup>(11)</sup> Waiver dated as of May 31, 2006 to the Amended and Restated Five-Year Credit Agreement

10.3<sup>(4)</sup> Severance Agreement and Release and Waiver between the Company and Richard E. Goodrich dated October 8, 2005

(a)<sup>(8)</sup> Letter Agreement dated February 13, 2006 amending the Severance Agreement and Release and Waiver between the Company and Richard E. Goodrich

(b)<sup>(9)</sup> Letter Agreement dated March 31, 2006 amending the Severance Agreement and Release and Waiver between the Company and Richard E. Goodrich

(c)<sup>(10)</sup> Letter Agreement dated April 28, 2006 amending the Severance Agreement and Release and Waiver between the Company and Richard E. Goodrich

10.4<sup>(7)</sup> Stay Bonus Agreement between the Company and Tommy C. Rhodes dated January 27, 2006

10.5<sup>(10)</sup> Agreement and Mutual Release between Chicago Bridge & Iron Company (Delaware), Chicago Bridge & Iron Company N.V., Chicago Bridge & Iron Company B.V. and Gerald M. Glenn, executed May 2, 2006



31.1<sup>(1)</sup> Certification pursuant to Rule 13A-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2<sup>(1)</sup> Certification pursuant to Rule 13A-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1<sup>(1)</sup> Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2<sup>(1)</sup> Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Filed herewith
- (2) Incorporated by reference from the Company's 2001 Form 8-K dated September 17, 2001
- (3) Incorporated by reference from the Company's 2005 Form 8-K dated May 25, 2005
- (4) Incorporated by reference from the Company's 2005 Form 8-K dated October 11, 2005
- (5) Incorporated by reference from the Company's 2005 Form 8-K dated November 17, 2005
- (6) Incorporated by reference from the Company's 2006 Form 8-K dated

January 13,  
2006

- (7) Incorporated by reference from the Company's 2006 Form 8-K dated February 2, 2006
- (8) Incorporated by reference from the Company's 2006 Form 8-K dated February 15, 2006
- (9) Incorporated by reference from the Company's 2006 Form 8-K dated March 31, 2006
- (10) Incorporated by reference from the Company's 2006 Form 8-K dated May 4, 2006
- (11) Incorporated by reference from the Company's 2005 Form 10-Q dated May 31, 2006

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chicago Bridge & Iron Company N.V.

/s/ PHILIP K. ASHERMAN

Philip K. Asherman  
(Authorized Signer)

/s/ RICHARD E. GOODRICH

Richard E. Goodrich  
(Acting Principal Financial Officer)

Date: June 1, 2006

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