PERINI CORP
Form S-1/A
February 10, 2004
Table of Contents

As filed with the Securities and Exchange Commission on February 9, 2004

Registration Statement No. 333-111338

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective

Amendment No. 1 to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

PERINI CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Massachusetts	1542	04-1717070
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

73 Mt. Wayte Avenue

Framingham, MA 01701

(508) 628-2000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive office)

Robert Band

President and Chief Operating Officer

Perini Corporation

73 Mt. Wayte Avenue

Framingham, MA 01701

(508) 628-2000

(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is used to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED ,

5,910,800 Shares

Common Stock

The shares of common stock are being sold by the selling stockholders. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is listed on the American Stock Exchange under the symbol PCR. The last reported sale price on February 3, 2004, was $12.44 per share.

The underwriters have an option to purchase a maximum of 886,620 additional shares to cover over-allotments of shares.

Investing in our common stock involves risks. See Risk Factors on page 7.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholders
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , .

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

D.A. Davidson & Co.

Morgan Joseph & Co. Inc.

The date of this prospectus is , .

Table of Contents

[Headings Perini Building Company , Perini Civil Construction and Perini Management Services with various pictures of completed construction sites.]

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Table of Contents

PROSPECTUS SUMMARY

The following summary contains information about our business and the offering of our common stock. It does not contain all of the information that you need to consider in making an investment decision. You should read this entire prospectus carefully, including the information under Risk Factors and our consolidated financial statements and the related notes included elsewhere in this prospectus. In this prospectus, unless the context requires otherwise, Perini, we, us and our refer to Perini Corporation, a Massachusetts corporation, and our subsidiaries, including the operations of businesses we acquired prior to the date of acquisition, and not to the underwriters.

Our Company

We are a leading construction services company, based on revenues, as ranked by Engineering News-Record, offering diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. We have provided construction services since 1894 and have established a strong reputation within our markets by executing large, complex projects on time and within budget while adhering to strict quality control measures. We offer general contracting, preconstruction planning and comprehensive project management services, including the planning and scheduling of the manpower, equipment, materials and subcontractors required for a project. We also offer self-performed construction services including earthwork, concrete forming and placement and steel erection. During the nine months ended September 30, 2003, we performed work on over 100 construction projects for over 75 federal, state and local government agencies or authorities and private customers. Our headquarters are in Framingham, Massachusetts, and we have seven other principal offices throughout the United States. As of September 30, 2003, we employed approximately 3,400 people. Our common stock is currently listed on the American Stock Exchange under the symbol PCR.

Our business is now conducted through three primary segments: building, civil, and management services. Our building segment is comprised of Perini Building Company and James A. Cummings, Inc., or Cummings, and focuses on large, complex projects in the hospitality and gaming, sports and entertainment, educational, transportation and healthcare markets. Our civil segment is involved in public works construction primarily in the northeastern United States, including the repair, replacement and reconstruction of the United States public infrastructure such as highways, bridges and mass transit systems. Our management services segment provides diversified construction, design-build and maintenance services to the U.S. military and government agencies as well as power producers, surety companies and multi-national corporations.

For the nine months ended September 30, 2003, our revenues were $873.4 million and income before income taxes was $15.0 million, which represents a 6.2% and 6.5% increase, respectively, over the same period in 2002. Our backlog was $1.33 billion as of September 30, 2003, an increase of 34.5% from $990 million at the end of 2002.

The following chart presents our revenues by segment for the nine months ended September 30, 2003 and our backlog by segment as of September 30, 2003 (in millions):

Revenue by Segment

(Nine Months Ended 9/30/03)

Backlog by Segment

(As of 9/30/03)

1

Table of Contents

The table below is a summary of on-going and recently completed projects organized by our current primary end markets within each of our business segments:

End Market	Representative Clients/Projects	Location
Building Segment		
Hospitality and Gaming		
General	Paris Hotel & Casino	Las Vegas, NV
	Gaylord Palms Resort and Convention Center	Orlando, FL
Native American	Mohegan Sun Hotel/Casino Expansion	Uncasville, CT
	Seminole Hard Rock Hotel and Casino	Hollywood, FL
Sports and Entertainment	Bank One Ballpark	Phoenix, AZ
	The Palace at Auburn Hills	Auburn Hills, MI
Education Facilities	Florida International University, Health & Life Sciences Building	Miami, FL
	East Connecticut State University Dormitory	Willimantic, CT
Transportation Facilities	100th Street Bus Depot	New York, NY
	Airport Parking Garage and Rental Car Facility	Ft. Lauderdale, FL
Healthcare Facilities	South Shore Hospital Expansion	Weymouth, MA
	La Posada Senior Living Community	Palm Beach Gardens, FL
Civil Segment		
Highways	I-93 Northbound Tunnel/Atlantic Avenue (Central Artery/Tunnel Project)	Boston, MA
	Long Island Expressway Reconstruction	Queens, NY
Bridges	Williamsburg Bridge Reconstruction	New York, NY
	Triborough Bridge Deck Replacement	New York, NY
Mass Transit	Hudson-Bergen Light Rail	Jersey City, NJ
	Jamaica Station Reconstruction	Jamaica, NY
Management Services Segment		
U.S. Government Services	U.S. Embassy Security Upgrade	Worldwide
	Reconstruction of Electric Power Facilities	Southern Iraq
Power Facilities Maintenance	Exelon Nuclear (10 Stations, 17 Units)	IL, NJ and PA

2

Table of Contents

Our Strengths

We believe our competitive position is augmented by the following principal competitive strengths:

Market Leadership in Several High-Growth Building End Markets. Our significant experience, strong relationships, market leadership, design-build expertise and presence in certain key areas throughout the United States allow us to successfully compete for projects in certain end markets such as hospitality and gaming.

Extensive Experience in Complex Civil Construction. For over 100 years, we have provided specialized civil construction services, with an emphasis on large, complex projects in dense urban areas.

Responsiveness and Performance with Challenging Projects. Our clients often rely on us to respond rapidly to complete projects in challenging business or operating environments throughout the world.

Long-Term Relationships and Operating History with Clients. We maintain strong, long-term relationships with many of our clients.

Focus on Managing Contract and Project Risk. Our extensive experience and history in our markets provide us with an understanding of the risks associated with certain projects.

Experienced Management Team and Highly Skilled Workforce. Our senior management team and workforce bring significant industry work experience and specialized project expertise to our project execution capabilities.

Our Strategy

We will seek to increase shareholder value by pursuing the following growth strategies:

Leverage Leadership Position in Hospitality and Gaming Market. We intend to leverage our leadership position in this market by emphasizing our experience and our proven ability to complete challenging projects on accelerated schedules.

Extend Building Construction Expertise to Additional Markets. As we expand our market presence within particular project types or geographic areas, we will seek opportunities to cross-utilize our building construction expertise.

Pursue Expanding Federal Contracting Opportunities for Defense, Reconstruction and Security. We have well established relationships with U.S. government agencies that include, among others, the Departments of Defense and State. We will continue to pursue construction and support projects at various domestic and overseas locations such as military bases, military installations and U.S. embassies.

Seek Complex Civil Construction Projects in the Northeast. We intend to maintain and build upon our established position as a leading civil construction contractor in the northeastern United States. As one of a limited number of firms that has the ability to consistently pre-qualify for major projects, we will selectively focus on large, complex projects where our competitive advantages can be leveraged.

Focus on Margin Expansion Opportunities. We will actively seek to expand our profit margins by managing our business mix, targeting high value-added projects and continuously evaluating our corporate support and field operations cost structures.

Pursue Selected Strategic Acquisitions. We intend to supplement our internal growth and achieve strategic benefits by pursuing selected acquisitions.

We are a Massachusetts corporation. Our principal office is located at 73 Mt. Wayte Avenue, Framingham, Massachusetts 01701 and our telephone number is (508) 628-2000.

Table of Contents

The Offering

Common stock offered by the selling stockholders (1)	5,910,800 shares
Common stock outstanding before and after this offering	22,885,535 shares
Dividend policy	We have not paid any cash dividends on our common stock since 1990 and currently do not expect to pay dividends or make any other distributions on such stock in the immediate future.
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling stockholders.
American Stock Exchange Symbol	PCR

(1) Assumes no exercise by the underwriters of their option to purchase up to 886,620 additional shares from the selling stockholders to cover over-allotments.

All of the shares offered by this prospectus are being offered by the selling stockholders.

The number of shares of common stock outstanding before and after this offering is based on the number of shares outstanding as of December 15, 2003 and excludes:

- 3,005,800 shares of common stock reserved for issuance upon the exercise of outstanding stock options at a weighted average exercise price per share of $5.00;
- 195,634 shares of common stock reserved for future awards under our Special Equity Incentive Plan;
- 370,239 shares of common stock reserved for issuance upon conversion of our $21.25 Preferred Stock at a conversion price of $377.50 per share (or $37.75 per Depositary Share); and
- 420,000 shares of common stock reserved for issuance upon exercise of outstanding warrants at an exercise price per share of $8.30, subject to anti-dilution adjustment in the event of certain transactions and other corporate events.

As of December 15, 2003 the selling stockholders held approximately 52% of our outstanding common stock. After giving effect to this offering and assuming the full exercise of the underwriters option to purchase 886,620 additional shares, the selling stockholders will own approximately 22% of our outstanding common stock.

Unless otherwise indicated, the information in this prospectus assumes that the underwriters will not exercise the over-allotment option granted to them by the selling stockholders.

Table of Contents

Summary Consolidated Financial Data

The following summary consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and Selected Historical Financial Data and our consolidated financial statements and related notes included elsewhere in this prospectus. The summary consolidated financial data for the years ended December 31, 2002, 2001 and 2000, and as of December 31, 2002 and 2001, are derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the years ended December 31, 1999 and 1998 and as of December 31, 2000, 1999 and 1998 are derived from our audited financial statements not included in this prospectus. The summary consolidated condensed financial data for the nine months ended September 30, 2003 and 2002 and as of September 30, 2003 and 2002, are derived from our unaudited consolidated condensed financial statements included elsewhere in this prospectus. Backlog and new business awarded are not measures defined in generally accepted accounting principles and have not been derived from our consolidated financial statements. In the opinion of management the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the information set forth therein. The historical results are not necessarily indicative of our future results of operations or financial performance and the results for the nine months ended September 30, 2003 should not be considered indicative of results expected for the full fiscal year.

	Nine Months Ended September 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(in thousands, except per share data)						
Statement of Operations Data:							
CONTINUING OPERATIONS:							
Revenues	$ 873,451	$ 822,482	$ 1,085,041	$ 1,553,396	$ 1,105,660	$ 1,019,484	$ 1,011,322
Cost of Operations	829,590	784,744	1,026,391	1,495,834	1,053,328	969,015	957,651
Gross Profit	43,861	37,738	58,650	57,562	52,332	50,469	53,671
G&A Expense	27,709	22,132	32,770	28,061	24,977	26,635	27,397
Income From Operations	16,152	15,606	25,880	29,501	27,355	23,834	26,274
Other (Income) Expense, Net	428	360	520	227	(949)	(72)	652
Interest Expense	701	1,146	1,485	2,006	3,966	7,128	8,473
Income Before Income Taxes	15,023	14,100	23,875	27,268	24,338	16,778	17,149
Provision (Credit) for Income Taxes	(6,410)	551	801	850	(43)	421	1,100
Income From Continuing Operations	**21,433**	**13,549**	**23,074**	**26,418**	**24,381**	**16,357**	**16,049**
DISCONTINUED OPERATIONS:							
Loss From Operations						(694)	(4,397)
Loss on Disposal of Real Estate Business Segment						(99,311)	
Loss From Discontinued Operations						(100,005)	(4,397)
Net Income (Loss)	**$ 21,433**	**$ 13,549**	**$ 23,074**	**$ 26,418**	**$ 24,381**	**$ (83,648)**	**$ 11,652**
Income Available for Common Stockholders (1)	$ 27,331	$ 11,955	$ 20,949	$ 24,293	$ 7,299	$ (89,917)	$ 5,743
Per Share of Common Stock:							
Basic Earnings (Loss):							
Income From Continuing Operations (2)	$ 1.20	$ 0.53	$ 0.92	$ 1.07	$ 0.39	$ 1.80	$ 1.91
Loss From Discontinued Operations						(0.12)	(0.83)
Estimated Loss on Disposal						(17.72)	

Total	$ 1.20	$ 0.53	$ 0.92	$ 1.07	$ 0.39	$ (16.04)	$ 1.08
Diluted Earnings (Loss):							
Income From Continuing Operations (2)	$ 1.17	$ 0.52	$ 0.91	$ 1.04	$ 0.39	$ 1.80	$ 1.91
Loss From Discontinued Operations						(0.12)	(0.83)
Estimated Loss on Disposal						(17.72)	
Total	$ 1.17	$ 0.52	$ 0.91	$ 1.04	$ 0.39	$ (16.04)	$ 1.08
Weighted Average Common Shares Outstanding:							
Basic	22,726	22,664	22,664	22,623	18,521	5,606	5,318
Diluted	23,399	23,028	22,939	23,442	18,527	5,606	5,318

Table of Contents

	Nine Months Ended September 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(in thousands, except per share data)						
Balance Sheet Data (end of period):							
Total Assets (3)	$ 464,412	$ 395,326	$ 402,389	$ 501,241	$ 487,478	$ 385,767	$ 452,496
Working Capital	122,110	130,346	115,908	93,369	80,477	48,430	57,665
Long-term Debt, Less Current Maturities	25,566	33,700	12,123	7,540	17,218	41,091	75,857
Stockholders Equity (Deficit)	103,510	91,364	86,649	79,408	60,622	(36,618)	50,558
Other Data:							
Depreciation and Amortization	$ 2,524	$ 2,309	$ 3,202	$ 2,602	$ 2,191	$ 3,342	$ 3,059
Capital Expenditures	4,406	3,710	4,510	4,528	1,793	1,599	1,418
Backlog (end of period) (4)	1,332,148	1,124,818	990,175	1,213,535	1,788,731	1,658,077	1,232,256
New Business Awarded (5)	1,215,423	733,256	861,681	978,200	1,236,314	1,445,305	934,124

(1) Income available for common stockholders includes adjustments to net income for (a) accrued and unpaid dividends on our $21.25 Preferred Stock, or $2.125 Depositary Shares, (b) the reversal of previously accrued and unpaid dividends in the amount of approximately $7.3 million applicable to 440,627 of the $2.125 Depositary Shares purchased and retired by us on June 9, 2003, (c) dividends declared and paid on our Series B Preferred Stock until its exchange for shares of common stock on March 29, 2000 and (d) the $13.7 million assigned to the induced conversion of the Series B Preferred Stock into common stock on March 29, 2000 (see Note (2) below).

(2) As discussed in Note (1)(i) of Notes to Consolidated Financial Statements, basic and diluted earnings per share for 2000 have been restated.

(3) As discussed in Note (1)(b) of Notes to Consolidated Financial Statements, we now present our interests in joint ventures in the Consolidated Balance Sheets using the proportionate consolidation method. Accordingly, total assets included above have been restated for all periods presented to reflect this change.

(4) A construction project is included in our backlog at such time as a contract is awarded or a firm letter of commitment is obtained and funding is in place. Backlog is not a measure defined in generally accepted accounting principles, or GAAP, and our backlog may not be comparable to the backlog of other companies. Management uses backlog to assist in forecasting future results.

(5) New business awarded consists of the original contract price of projects added to our backlog in accordance with Note (4) above plus or minus subsequent changes to the estimated total contract price of existing contracts. Management uses new business awarded to assist in forecasting future results.

6

Table of Contents

RISK FACTORS

You should carefully consider the following risks and all other information contained in this prospectus before purchasing our common stock. If any of the following risks occur, our business, prospects, reputation, results of operations or financial condition could be harmed. In that case, the trading price of our common stock could decline, and you could lose all or part of your investment. This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks described below and elsewhere in this prospectus.

Risks Relating to Our Business

We are subject to significant legal proceedings the outcomes and effects of which are not possible to predict.

We are involved in various lawsuits, including the legal proceedings described under Business Legal Proceedings. Some of these proceedings involve claims and judgments against us for significant amounts. For example, the litigation with the Los Angeles MTA has resulted in an award against the Tutor-Saliba-Perini joint venture (a joint venture in which we have a 40% interest), Tutor-Saliba and us, jointly and severally, for $63.0 million plus accrued interest. This award is currently being appealed by the joint venture. We do not believe that this or any other pending litigation will ultimately result in a final judgment against us that would materially adversely affect us. Litigation is, however, inherently uncertain and it is not possible to predict what the final outcome will be of any legal proceeding. A final judgment against us would require us to record the related liability and fund the payment of the judgment and, if such adverse judgment is significant, it could have a material adverse effect on us.

In addition, legal proceedings resulting in judgments or findings against us may harm our reputation and prospects for future contract awards. For example, we are defendants in a civil action brought by the San Francisco City Attorney on behalf of the City and County of San Francisco and the citizens of California, in which it is alleged, among other things, that we violated various bidding practices and minority contracting regulations and committed acts of fraud. If a final judgment is determined adversely to us, it may harm our reputation among other municipalities, which could preclude us from being qualified to bid on future municipal projects.

Our contracts require us to perform extra or change order work, which can result in disputes and increase the amount of unbilled work recorded on our balance sheet.

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

Also, these unapproved change orders, contract disputes or claims result in costs being incurred by us that cannot be billed currently and therefore, are reflected as unbilled work in our balance sheet. See Note 1(d) of Notes to Consolidated Financial Statements. To the extent actual recoveries with respect to unapproved change orders, contract disputes or claims are lower than our estimates, the amount of any shortfall will reduce our revenues and the amount of unbilled work recorded on our balance sheet, and could have a material adverse effect on our working capital, results of operations and cash flows. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other project work and our ability to meet specified contract

Table of Contents

milestone dates. For example, we are currently, along with our joint venture partners, pursuing a series of claims for additional contract time and compensation against the Massachusetts Highway Department for work performed by the joint venture on a portion of the Central Artery/Tunnel project in Boston, Massachusetts. During construction, the Massachusetts Highway Department ordered the joint venture to perform changes to the work and issued related direct cost changes with an estimated value, excluding time delay and inefficiency costs, in excess of $100 million. In addition, we encountered a number of unforeseen conditions during construction that greatly increased our cost of performance. See Business Legal Proceedings.

Our international operations involve risks that could adversely affect our revenue and earnings.

Approximately 10% of our revenue for the nine months ended September 30, 2003 was derived from our work on projects located outside of the United States. We expect non-U.S. projects to continue to contribute to our revenue and earnings for the foreseeable future. Our international operations expose us to risks inherent in doing business outside the United States, including:

- political risks, including risks of loss due to civil disturbances, acts of terrorism, acts of war, guerilla activities and insurrection;
- unstable economic, financial and market conditions;
- potential incompatibility with foreign joint venture partners;
- foreign currency controls and fluctuations;
- trade restrictions;
- increases in taxes; and
- changes in labor conditions, labor strikes and difficulties in staffing and managing international operations.

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

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

In addition, our projects in Iraq, Afghanistan and other areas of political and economic instability carry with them specific security and operational risks. Intentional or unintentional acts in those countries could result in damage to our construction sites or harm to our employees and could result in our decision to withdraw our operations from the area. Also, as a result of these acts, the federal government could decide to cancel or suspend our operations in these areas.

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

The hospitality and gaming industry is regulated extensively by federal and state regulatory bodies, including state gaming commissions, the National Indian Gaming Commission and state and federal taxing and law enforcement agencies. From time to time, legislation is proposed in the legislatures of some of these jurisdictions that, if enacted, could adversely affect the tax, regulatory, operational or other aspects of the hospitality and gaming industry. Legislation of this type may be enacted in the future. The federal government has also previously considered a federal tax on casino revenues and may consider such a tax in the future. In addition, companies that operate in the hospitality and gaming industry are currently subject to significant state and local taxes and fees in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase at any time. For example, a new tax law enacted in Nevada on July 22, 2003 increased the taxes applicable to Nevada gaming operations. Similar legislation or new hospitality and gaming regulations could deter future hospitality and gaming construction projects in jurisdictions in which we derive significant revenue. As a result, the enactment of such legislation or regulations could adversely impact our future earnings.

A decrease in government funding of infrastructure projects could reduce our profits.

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

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

We generally enter into four principal types of contracts with our clients: fixed price contracts, cost plus award fee contracts, guaranteed maximum price contracts, and, to a lesser extent, construction management, or design-build, contracts. A substantial portion of our revenues and backlog are derived from fixed price contracts. For example, approximately 25% of our revenues for the first nine months of 2003 were derived from fixed price contracts. Fixed price contracts require us to perform the contract for a fixed price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we successfully control our costs and avoid cost overruns. Cost plus award fee contracts provide for reimbursement of the costs required to complete a project, but generally have a lower base fee and an incentive fee based on cost and/or schedule performance. If our costs exceed the revenues available under such a contract or are not allowable under the provisions of the contract, we may not receive reimbursement for these costs. Guaranteed maximum price contracts provide for a cost plus fee arrangement up to a maximum agreed-upon price. These contracts also place the risk on us for cost overruns that exceed the guaranteed maximum price. Construction management and design-build contracts are those under which we agree to manage a project for the client for an agreed upon fee, which may be fixed or may vary based upon negotiated factors. Profitability on these types of contracts is driven by changes in the scope of work or design issues, which could cause cost overruns beyond our control and limit profits on these contracts.

Cost overruns, whether due to inefficiency, faulty estimates or other factors, result in lower profit or a loss on a project. A significant number of our contracts are based in part on cost estimates that are subject to a number of assumptions. If our estimates of the overall risks, revenues or costs prove inaccurate or circumstances change, then we may incur a lower profit or a loss on the contract.

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

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

Table of Contents

We are subject to a number of risks as a government contractor, which could either harm our reputation or adversely impact our financial condition.

We are a major provider of services to government agencies and therefore are exposed to risks associated with government contracting. For example, we must comply with and are affected by laws and regulations relating to the formation, administration and performance of government contracts, such as the Federal Acquisition Regulation, the Cost Accounting Standards and Department of Defense security regulations. A violation of these laws or regulations could require us to pay fines and penalties, result in the termination of existing contracts or result in our being suspended from future government contracts. If a government agency determines that we or a subcontractor engaged in improper conduct, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the government, any of which could have a material adverse effect on us.

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

We have been, are and will be in the future, the subject of audits and cost reviews by contracting agencies, such as the United States Defense Contract Audit Agency, or the DCAA. These agencies review a contractor s performance and may disallow costs if the agency determines that we accounted for such costs in a manner inconsistent with Cost Accounting Standards or other regulatory and contractual requirements. Therefore, a negative audit could result in a substantial adverse adjustment to our revenues and costs, harm our reputation and result in civil and criminal penalties.

Our participation in joint ventures exposes us to liability for failures of our partners.

We sometimes enter into joint venture arrangements with outside partners on a joint and several basis so that we can jointly bid on and execute a particular project and reduce our financial or operational risk with respect to such projects. Success on these joint projects depends in large part on whether our joint venture partners satisfy their contractual obligations. If a joint venture partner fails to perform or is financially unable to bear its portion of required capital contributions, we could be required to make additional investments and provide additional services in order to make up for our partner s shortfall. Further, if we are unable to adequately address our partner s performance issues, the client may terminate the project, which could result in legal liability to us, harm our reputation and reduce profit on a project.

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

Our defined benefit pension plan is a non-contributory pension plan covering substantially all of our employees. As of December 31, 2002, our pension plan was underfunded by approximately $32.3 million. We are required to make cash contributions to our pension plan to the extent necessary to comply with minimum funding requirements imposed by employee benefit and tax laws. The amount of any such required contributions is determined based on an annual actuarial valuation of the plan as performed by the plan s actuaries. During 2002, we contributed $2.4 million in cash to our defined benefit pension plan, of which $2.2 million was voluntary. Through September 30, 2003, we contributed $3.1 million to our defined benefit pension plan, of which $3.0 million was voluntary. The amount of future contributions will depend upon asset returns, then-current discount rates and a number of other factors, and, as a result, the amount we may elect or be required to contribute to our pension plan in the future may increase significantly. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Defined Benefit Retirement Plan.

Table of Contents

Our failure to meet schedule requirements of our contracts could adversely affect our reputation.

Many of our contracts are subject to specific completion schedule requirements with liquidated damages charged to us in the event the construction schedules are not achieved. Failure to meet any such schedule requirements could cause us to suffer damage to our reputation within our industry and client base, as well as pay significant liquidated damages.

We face intense competition which could reduce our market share and profits.

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

Economic downturns could reduce the level of spending on capital expenditures by private and governmental entities in the markets we serve and could adversely affect demand for our services.

The building construction markets we serve, such as hospitality and gaming, sports and entertainment, education, transportation and healthcare facilities, are affected by changes in general economic conditions. During economic downturns, the ability of both private and governmental entities to make capital expenditures may decline significantly, which could result in fewer projects or the suspension or cancellation of existing or planned projects and difficulty in collecting amounts owed to us for work completed or in progress.

In addition, consumer spending in the hospitality and gaming industry is discretionary and may decline during economic downturns, when consumers have less disposable income. Even an uncertain economic outlook may adversely affect consumer spending in hospitality and gaming operations, as consumers may spend less in anticipation of a potential economic downturn. Decreased spending in the hospitality and gaming market could deter new projects within the industry and the expansion or renovation of existing hospitality and gaming facilities, which could impact our revenues and earnings.

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

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

Conflicts of interest may arise with respect to our Chairman and Chief Executive Officer.

Ronald N. Tutor, our chief executive officer and chairman of our Board of Directors, is the sole shareholder and chief executive officer of Tutor-Saliba Corporation, or Tutor-Saliba, a California corporation that beneficially owns approximately 27% of our common stock. Mr. Tutor also devotes a substantial amount of time to the business activities of Tutor-Saliba. Tutor-Saliba is engaged in the construction industry, and, as described under Certain Transactions, we have participated in joint ventures with Tutor-Saliba and expect to continue to do so. Although our joint ventures with Tutor-Saliba are discussed with our Audit Committee, transactions we enter into with Tutor-Saliba could be influenced by Mr. Tutor. As in any joint venture, we could have disagreements with Tutor-Saliba over the operation of the joint ventures or the joint ventures could be involved in disputes with third parties, such as the litigation described under Business Legal Proceedings, where we may or may not have an identity of interest with Tutor-Saliba. When such situations arise, we may feel constrained in aggressively pursuing all options available to us because of Mr. Tutor s importance to us as our Chief Executive Officer and Chairman and a significant shareholder. If we face such a situation and elect to pursue options against Tutor-Saliba, it is possible that Mr. Tutor or we could terminate his management relationship with us, which could have a material adverse effect on us.

We could incur significant costs as a result of liability under environmental laws.

Our operations are subject to environmental laws and regulations governing among other things, the discharge of pollutants to air and water, the handling, storage and disposal of solid or hazardous materials or wastes and the remediation of contamination, sometimes associated with leaks or releases of hazardous substances. For example, we own, lease, or have used, in our construction, real estate and environmental remediation operations property upon which solid or hazardous wastes may have been disposed of or released. Any release of such materials or wastes by us or by third parties who operated on these properties may result in liability for investigation or remediation costs. In addition, violations of these environmental laws and regulations could subject us and our management to fines, civil and criminal penalties, cleanup costs and third party property damage or personal injury claims.

Various federal, state and local environmental laws and regulations may impose liability for the entire cost of investigation and clean-up of hazardous or toxic substances. These laws may impose liability without regard to ownership at the time of the contamination or whether or not we caused the presence of contaminants.

Our projects expose us to potential liability claims.

We construct many facilities where design, construction or systems failures can result in substantial injury or damage to third parties. Any liability for an uninsured claim or claims in excess of our insurance limits at projects constructed by us or where our services are performed could result in a significant liability to us.

If we are unable to attract and retain key personnel, we could be adversely affected.

Our business substantially depends on the continued service of key members of our management, particularly Ronald N. Tutor, Robert Band, Craig W. Shaw, Zohrab B. Marashlian and Michael E. Ciskey. The loss of the services of any of our key senior management could have a material adverse effect on us. Our future success will also depend on our ability to attract and retain highly skilled personnel, such as engineering, project management and senior management professionals. Competition for these employees is intense, and we could experience difficulty from time to time in hiring and retaining the personnel necessary to support our business. If we do not succeed in retaining our current employees and attracting new high quality employees, we could be adversely affected.

Work stoppages and other labor problems could adversely affect portions of our business, financial position, results of operations and cash flows.

We are a signatory to numerous local and regional collective bargaining agreements, both directly and through trade associations. Future agreements reached in collective bargaining could increase our operating expenses and reduce our profits as a result of increased wages and benefits. If the industry were unable to negotiate with any of the unions, it could result in strikes, work stoppages or increased operating costs as a result of higher than anticipated wages or benefits. If the unionized workers engage in a strike or other work stoppage, or other employees become unionized, we could experience a disruption of our operations and higher ongoing labor costs, which could adversely affect portions of our business, financial position, results of operations and cash flows.

Table of Contents

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

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

- incur debt in addition to the amount available under our credit facility ($30.2 million at September 30, 2003);
- create liens or other encumbrances;
- enter into certain types of transactions with our affiliates;
- make certain capital expenditures;
- make investments, loans or other guarantees;
- sell or otherwise dispose of a portion of our assets; or
- merge or consolidate with another entity.

Our credit facility contains financial covenants that require us to maintain specified working capital, tangible net worth and operating profit levels. Our credit facility also requires us to comply with a minimum interest coverage ratio. Our ability to borrow funds for any purpose will depend on our satisfying these tests.

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

We may have difficulty raising needed capital in the future, which could limit our available working capital and our ability to make acquisitions or future investments.

We may require additional financing in order to make future investments, make acquisitions or provide needed additional working capital. Our ability to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; such factors may impact our efforts to arrange additional financing on terms satisfactory to us. We have pledged substantially all of our assets as collateral in connection with our credit facility. As a result, we may have difficulty obtaining additional financing in the future if such financing requires us to pledge our assets as collateral. If additional financing is obtained by the issuance of additional shares of common stock, control of Perini may change and stockholders may suffer dilution. If adequate funds are not available, or are not available on acceptable terms, we may not be able to make future investments, take advantage of acquisition or other opportunities, or otherwise respond to competitive challenges.

Our results of operations depend on the award of new contracts and the timing of the performance of these contracts.

At any point in time, a substantial portion of our revenues is directly or indirectly derived from a limited number of large construction projects. It is generally very difficult to predict whether and when we will receive such awards as these contracts frequently involve a lengthy and complex bidding and selection process which is affected by a number of factors, such as market conditions, financing arrangements and governmental approvals. Because a significant portion of our revenue is generated from large projects, our results of operations and cash flows can fluctuate from quarter to quarter depending on the timing of our new contract awards.

In addition, timing of the revenues, earnings and cash flows from our projects can be delayed by a number of factors, including weather conditions, delays in receiving material and equipment from vendors and changes in the scope of work to be performed. Such delays, if they occur, could have an adverse effect on our operating results for a particular period.

We may not be able to fully realize the revenue value reported in our backlog.

As of September 30, 2003, our backlog was approximately $1.3 billion. We include a construction project in our backlog at such time as a contract is awarded or a firm letter of commitment is obtained and funding is in place. The revenue projected in our backlog may not be realized or, if realized, may not result in profits. For example, if a project reflected in our backlog is terminated, suspended or reduced in scope, it would result in a reduction to our backlog which would reduce, potentially to a material extent, the revenue and profit we actually receive from contracts in backlog. If a client cancels a project, we may be reimbursed for certain costs but typically have no contractual right to the total revenues reflected in our backlog. Significant cancellations or delays of projects in our backlog could have a material adverse effect on our revenues and profits.

We have not paid dividends on our $21.25 Preferred Stock in several years and are currently in litigation with certain of our preferred stockholders.

Under the terms of our $21.25 Preferred Stock, the holders of shares of our $21.25 Preferred Stock are entitled to receive an annual cash dividend of $21.25 per share when and as declared by the Board of Directors out of funds legally available for such purposes. We have not paid dividends on our $21.25 Preferred Stock since 1995, though they have been fully accrued due to the cumulative feature of the $21.25 Preferred Stock. The holders of our $21.25 Preferred Stock have the right to elect two directors to our board in the event that dividends are in arrears for at least six quarters, and they have done so at each of our last six annual meetings of stockholders. We are currently in litigation with certain holders of our $21.25 Preferred Stock. See Management s Discussion and Analysis of Financial Condition and Results of Operations Dividends and Business Legal Proceedings $21.25 Preferred Shareholders Class Action Lawsuit. If this litigation results in a final judgment against us, and such adverse judgment is significant, it could have a material adverse effect on us.

Our acquisition strategy involves a number of risks.

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

Risks Relating to Our Common Stock

This offering will result in a substantial amount of previously unregistered shares of our common stock being registered, which may depress the market price of our common stock.

As of December 15, 2003, the number of shares of our outstanding common stock freely tradeable on the American Stock Exchange and not owned by our officers, directors, or affiliates was approximately 5.5 million. The sale of the shares of common stock in this offering could depress the market price of our common stock.

Future sales or the possibility of future sales of a substantial amount of our common stock may cause our stock price to decline.

Upon completing this offering, we will have approximately 22.9 million shares of common stock outstanding. Our principal stockholders, directors and executive officers will own approximately 11.5 million of these shares. These stockholders will be free to sell those shares, subject to the limitations of Rule 144 or Rule 144(k) under the Securities Act of 1933, as amended (which are discussed under Shares Eligible for Future

Table of Contents

Sale), applicable restrictions on transfer contained in our shareholders agreement and, subject to certain exceptions, the 90-day lock-up agreements that these stockholders will enter into with the underwriters. See Underwriting. In addition, after giving effect to the sale of shares in this offering (excluding any exercise of the over-allotment option granted to the underwriters), the holders of approximately 11.8 million of our shares have the right to require us to register all or part of their shares under registration rights agreements. See Description of Capital Stock Registration Rights Agreements for a more detailed discussion of the registration rights agreements. Registration of these restricted shares of common stock would permit their sale into the public market immediately. See Shares Eligible for Future Sale. We cannot predict when these stockholders may sell their shares or in what volumes. However, the market price of our common stock could decline significantly if these stockholders sell a large number of shares into the public market after this offering or if the market believes that these sales may occur.

We may also issue our common stock from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock that we may issue could in turn be significant. In addition, we may also grant registration rights covering those shares in connection with any such acquisitions and investments.

Limited trading volume of our common stock may contribute to its price volatility.

Our common stock is traded on the American Stock Exchange. For the fourth quarter of 2003, the average daily trading volume for our common stock as reported by the American Stock Exchange was approximately 22,400 shares. Even if we achieve a wider dissemination by means of the shares offered pursuant to this prospectus, we are uncertain as to whether a more active trading market in our common stock will develop. As a result, relatively small trades may have a significant impact on the price of our common stock.

Our stock price has been and may continue to be volatile and may result in substantial losses for investors.

The market price of our common stock has been, and is likely to continue to be, volatile. Since January 1, 2003, the market price for our common stock has been as high as $13.50 per share and as low as $3.62 per share. Additionally, the stock market in general has been highly volatile since 2000. This volatility in stock price often has been unrelated to our operating performance.

In addition, the trading price of our common stock could be subject to wide fluctuations in response to:

- our prospects as perceived by others;
- variations in our operating results and our achievement of key business targets;
- changes in securities analysts recommendations or earnings estimates;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts or service offerings by us or our competitors;

- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors; and

- general economic or stock market conditions unrelated to our operating performance.

Fluctuations in our quarterly revenues and operating results may lead to reduced prices for our stock.

Because our operating results are primarily generated from a limited number of significant active construction projects, operating results in any given fiscal quarter can vary depending on the timing of progress achieved and changes in the estimated profitability of the projects being reported. Progress on projects in certain areas may also be delayed by weather conditions. Such delays, if they occur, may result in inconsistent quarterly operating results due to more or less progress than anticipated being achieved on certain projects, which may in turn lead to reduced prices for our stock.

Table of Contents

Ownership of our common stock is concentrated among a few stockholders who could act in a way that favors their interests to the detriment of our interests and those of other stockholders.

Following this offering and assuming that all of the selling stockholders sell all of the shares of common stock being registered in this offering, the percentage of shares owned by our executive officers, directors and 5% stockholders would be reduced to 50.2%. These stockholders have the power to control the election of most of our directors, and the approval of any action requiring majority approval of our common stockholders, including certain amendments to our charter. In addition, without the consent of these stockholders, we may not be able to enter into transactions that could be beneficial to us or our other stockholders.

Provisions of Massachusetts law and of our charter and bylaws may make a takeover of us more difficult.

Provisions in our restated articles of organization and bylaws and in the Massachusetts corporate law may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt which is opposed by our management and Board of Directors. Public stockholders who might desire to participate in such a transaction may not have an opportunity to do so. Our bylaws provide for a staggered Board of Directors which makes it difficult for stockholders to change the composition of the Board of Directors in any one year. Our Board of Directors has the authority to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to effect a change in control or takeover of Perini. Also, we have adopted a rights plan that limits the ability of any person to acquire more than 10% of our common stock, except in limited circumstances. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change in control or to change our management and Board of Directors. See Description of Capital Stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this prospectus, including under the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this prospectus that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including without limitation, statements regarding Perini s or our management s expectations, hopes, beliefs, intentions or strategies regarding the future. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading Risk Factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as may be required under applicable securities laws.

Table of Contents

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares by the selling stockholders or the additional shares to be sold by the selling stockholders if the underwriters exercise their over-allotment option.

DIVIDEND POLICY

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

MARKET PRICE OF OUR COMMON STOCK

Our common stock is traded on the American Stock Exchange under the symbol PCR. The quarterly market high and low sales prices for our common stock for 2004 (through February 3, 2004), 2003, and 2002 are summarized below:

	High	Low
Year Ending December 31, 2002		
First Quarter	7.28	5.75
Second Quarter	6.40	3.40
Third Quarter	4.58	3.50
Fourth Quarter	4.44	3.00
Year Ending December 31, 2003		
First Quarter	4.70	3.62
Second Quarter	9.05	3.80
Third Quarter	8.99	6.26
Fourth Quarter	10.10	6.95
Year ending December 31, 2004		
First Quarter (through February 3, 2004)	13.50	8.80

On February 3, 2004, the closing sale price of our common stock as reported on the American Stock Exchange was $12.44 per share. At February 4, 2004, there were 1,043 holders of record of our common stock, including record holders on behalf of an indeterminate number of beneficial owners, based on the stockholders list maintained by our transfer agent.

Table of Contents

CAPITALIZATION

The table below sets forth our consolidated short-term debt and capitalization as of September 30, 2003 (in thousands, except share data). We have not provided an adjusted capitalization table because we will not receive any of the proceeds from this offering. You should read the following information in conjunction with our consolidated financial statements and related notes and the information provided under the captions Selected Historical Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations which are included elsewhere in this prospectus.

Short-term debt:	
Notes payable to banks	$
Current maturities of long-term debt	831
Total short-term debt	$ 831
Long-term debt:	
Mortgages on real estate	$ 8,489
Revolving credit loans (1)	17,000
Other indebtedness	77
Total long-term debt	25,566
Stockholders equity:	
Preferred stock, $1.00 par value	
Authorized - 1,000,000 shares	
Designated, issued and outstanding 55,927 shares, aggregate liquidation preference of $13,982	56
Series A junior participating preferred stock, $1.00 par value	
Designated - 200,000 shares	
Issued none	
Stock purchase warrants	2,233
Common stock, $1.00 par value	
Authorized - 40,000,000 shares (2)	
Issued 22,903,064 shares (2)	22,903
Paid-in surplus (2)	91,137
Retained earnings	7,719
Less - common stock in treasury, at cost - 60,529 shares (2)	(965)
Accumulated other comprehensive loss	(19,573)
Total stockholders equity	103,510
Total capitalization	$ 129,076

(1) The revolving credit facility provides for revolving loans up to a maximum of $50 million to June 20, 2005, at which time any amounts unpaid convert to a three-year term loan with equal quarterly principal payments. The weighted average interest rate at September 30, 2003 was 3.81%. On November 5, 2003, the terms of our revolving credit facility were amended to provide a temporary $20 million increase in the revolving credit facility from $50 million to $70 million until January 31, 2004, to support the procurement requirements of a major project.

(2) As of September 30, 2003, we had 22,842,535 shares outstanding. As of September 30, 2003, options to purchase 3,048,800 shares of our common stock were outstanding and 195,634 shares were available for future awards under our Special Equity Incentive Plan. In addition, as of September 30, 2003, we had 370,279 shares of common stock reserved for issuance upon conversion of our $21.25 Preferred Stock at a conversion price of $377.50 per share (or $37.75 per Depositary Share) and 420,000 shares of common stock reserved for issuance upon

exercise of stock purchase warrants at an exercise price of $8.30 per share.

Table of Contents

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data shown below for the five-year period ended December 31, 2002 has been derived from our consolidated financial statements audited by Deloitte & Touche LLP (three-year period ended December 31, 2002) and by Arthur Andersen LLP (two-year period ended December 31, 1999), our current and former independent auditors, respectively.

The information for the nine months ended September 30, 2003 and 2002 has been derived from unaudited consolidated condensed financial statements and, in our opinion, includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly such financial information in accordance with generally accepted accounting principles applied on a consistent basis. Our results are generated from a limited number of significant active construction projects. Consequently, quarterly results can vary depending on the timing of progress and changes in the estimated profitability of the projects being reported. For the foregoing and other reasons, results for the nine months ended September 30, 2003 may not necessarily be indicative of results to be expected for the full year ended December 31, 2003. Backlog and new business awarded are not measures defined in generally accepted accounting principles and have not been derived from our consolidated financial statements. The selected historical consolidated financial data should be read in conjunction with our consolidated financial statements and related notes, Capitalization and Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus.

	Nine Months Ended September 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(in thousands, except per share data)						
Statement of Operations Data:							
CONTINUING OPERATIONS:							
Revenues	$ 873,451	$ 822,482	$ 1,085,041	$ 1,553,396	$ 1,105,660	$ 1,019,484	$ 1,011,322
Cost of Operations	829,590	784,744	1,026,391	1,495,834	1,053,328	969,015	957,651
Gross Profit	43,861	37,738	58,650	57,562	52,332	50,469	53,671
G&A Expense	27,709	22,132	32,770	28,061	24,977	26,635	27,397
Income From Operations	16,152	15,606	25,880	29,501	27,355	23,834	26,274
Other (Income) Expense, Net	428	360	520	227	(949)	(72)	652
Interest Expense	701	1,146	1,485	2,006	3,966	7,128	8,473
Income Before Income Taxes	15,023	14,100	23,875	27,268	24,338	16,778	17,149
Provision (Credit) for Income Taxes	(6,410)	551	801	850	(43)	421	1,100
Income From Continuing Operations	**21,433**	**13,549**	**23,074**	**26,418**	**24,381**	**16,357**	**16,049**
DISCONTINUED OPERATIONS:							
Loss From Operations						(694)	(4,397)
Loss on Disposal of Real Estate Business Segment						(99,311)	
Loss From Discontinued Operations						(100,005)	(4,397)
Net Income (Loss)	**$ 21,433**	**$ 13,549**	**$ 23,074**	**$ 26,418**	**$ 24,381**	**$ (83,648)**	**$ 11,652**
Income Available for Common Stockholders (1)	$ 27,331	$ 11,955	$ 20,949	$ 24,293	$ 7,299	$ (89,917)	$ 5,743

19

Table of Contents

	Nine Months Ended September 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(in thousands, except per share data)						
Per Share of Common Stock:							
Basic Earnings (Loss):							
Income from Continuing Operations (2)	$ 1.20	$ 0.53	$ 0.92	$ 1.07	$ 0.39	$ 1.80	$ 1.91
Loss From Discontinued Operations						(0.12)	(0.83)
Estimated Loss on Disposal						(17.72)	
Total	$ 1.20	$ 0.53	$ 0.92	$ 1.07	$ 0.39	$ (16.04)	$ 1.08
Diluted Earnings (Loss):							
Income From Continuing Operations (2)	$ 1.17	$ 0.52	$ 0.91	$ 1.04	$ 0.39	$ 1.80	$ 1.91
Loss From Discontinued Operations						(0.12)	(0.83)
Estimated Loss on Disposal						(17.72)	
Total	$ 1.17	$ 0.52	$ 0.91	$ 1.04	$ 0.39	$ (16.04)	$ 1.08
Weighted Average Common Shares Outstanding:							
Basic	22,726	22,664	22,664	22,623	18,521	5,606	5,318
Diluted	23,399	23,028	22,939	23,442	18,527	5,606	5,318
Balance Sheet Data (end of period):							
Total Assets (3)	$ 464,412	$ 395,326	$ 402,389	$ 501,241	$ 487,478	$ 385,767	$ 452,496
Working Capital	122,110	130,346	115,908	93,369	80,477	48,430	57,665
Long-term Debt, Less Current Maturities	25,566	33,700	12,123	7,540	17,218	41,091	75,857
Stockholders Equity (Deficit)	103,510	91,364	86,649	79,408	60,622	(36,618)	50,558
Redeemable Series B Cumulative Convertible Preferred Stock						37,685	33,540
Other Data:							
Depreciation and Amortization	$ 2,524	$ 2,309	$ 3,202	$ 2,602	$ 2,191	$ 3,342	$ 3,059
Capital Expenditures	4,406	3,710	4,510	4,528	1,793	1,599	1,418
Backlog (end of period) (4)	1,332,148	1,124,818	990,175	1,213,535	1,788,731	1,658,077	1,232,256
New Business Awarded (5)	1,215,423	733,256	861,681	978,200	1,236,314	1,445,305	934,124

(1) Income available for common stockholders includes adjustments to net income for (a) accrued and unpaid dividends on our $21.25 Preferred Stock, or $2.125 Depositary Shares, (b) the reversal of previously accrued and unpaid dividends in the amount of approximately $7.3 million applicable to 440,627 of the $2.125 Depositary Shares purchased and retired by us on June 9, 2003, (c) dividends declared and paid on our Series B Preferred Stock until its exchange for shares of common stock on March 29, 2000 and (d) the $13.7 million assigned to the induced conversion of the Series B Preferred Stock into common stock on March 29, 2000 (see Note (2) below).

(2) As discussed in Note (1)(i) of Notes to Consolidated Financial Statements, basic and diluted earnings per share for 2000 have been restated.

(3) As discussed in Note (1)(b) of Notes to Consolidated Financial Statements, we now present our interests in joint ventures in the Consolidated Balance Sheets using the proportionate consolidation method. Accordingly, total assets included above have been restated for all periods presented to reflect this change.

(4) A construction project is included in our backlog at such time as a contract is awarded or a firm letter of commitment is obtained and funding is in place. Backlog is not a measure defined in generally accepted accounting principles, or GAAP, and our backlog may not be comparable to the backlog of other companies. Management uses backlog to assist in forecasting future results.

(5) New business awarded consists of the original contract price of projects added to our backlog in accordance with Note (4) above plus or minus subsequent changes to the estimated total contract price of existing contracts. Management uses new business awarded to assist in forecasting future results.

20

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

We were incorporated in 1918 as a successor to businesses which had been engaged in providing construction services since 1894. We provide diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. Our construction business is now conducted through three business segments or operations: building, civil and management services. The general contracting and management services that we provide consist of general contracting, preconstruction planning and comprehensive project management services, including planning and scheduling the manpower, equipment, materials and subcontractors required for the timely completion of a project in accordance with the terms and specifications contained in a construction contract. We provide these services by using traditional general contracting arrangements, such as fixed price, guaranteed maximum price and cost plus award fee contracts and, to a lesser extent, construction management or design-build contracting arrangements. In the normal conduct of our business, we enter into partnership arrangements, referred to as joint ventures, for certain construction projects. Each of the joint venture participants is usually committed to supply a predetermined percentage of capital, as required, and to share in a predetermined percentage of the income or loss of the project.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in this prospectus.

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

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

21

Table of Contents

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

Unapproved change order and claims represent a portion of Unbilled Work in our balance sheet and are summarized below as of September 30, 2003 and December 31, 2002 and 2001:

	September 30, 2003	December 31, 2002	December 31 2001
		(in thousands)	
Unapproved Change Orders	$ 23,096	$ 30,289	$ 23,784
Claims	69,274	62,776	48,003
Total	$ 92,370	$ 93,065	$ 71,787

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

Deferred contract revenue represents the excess of billings to date over the amount of contract costs and profits (or contract revenue) recognized to date on the percentage of completion accounting method on certain contracts. Unbilled work represents the excess of contract costs and profits (or contract revenue) recognized to date on the percentage of completion accounting method over billings to date on the remaining contracts. Unbilled work results when (1) the appropriate contract revenue amount has been recognized in accordance with the percentage of completion accounting method, but a portion of the revenue recorded cannot be billed currently due to the billing terms defined in the contract and/or (2) costs, recorded at estimated realizable value, related to unapproved change orders or claims are incurred. For unapproved change orders or claims that cannot be resolved in accordance with the normal change order process as defined in the contract, we may employ other dispute resolution methods, including mediation, binding and non-binding arbitration, or litigation. See Business Legal Proceedings and Note 2, Contingencies and Commitments, of Notes to Consolidated Financial Statements. The prerequisite for billing unapproved change orders and claims is the final resolution and agreement between the parties. Unbilled work related to our contracts and joint venture contracts at December 31, 2002 is discussed in Note 1(d) of Notes to Consolidated Financial Statements.

Accounting for Construction Joint Ventures Prior to 2002, our interests in construction joint ventures were accounted for on the equity method in the Consolidated Balance Sheets and on the proportionate consolidation

method in the Consolidated Statements of Income, with our share of revenues and costs in these interests included in revenues and cost of operations, respectively. Beginning in 2002, construction joint venture interests are accounted for using the proportionate consolidation method in the Consolidated Balance Sheets as well as the Consolidated Statements of Income, whereby our proportionate share of each joint venture s assets, liabilities, revenues and cost of operations are included in the appropriate classifications in the consolidated financial statements. We believe the change, which results in presenting all joint venture activity using a consistent methodology in both the Consolidated Balance Sheets and Consolidated Statements of Income, is preferable.

Although this change impacted various classifications within current assets and current liabilities in the consolidated Balance Sheets and the Consolidated Statements of Cash Flows, it had no impact on net working capital or other categories of long-term assets or liabilities in the Consolidated Balance Sheets. It also had no impact on the Consolidated Statements of Income or basic or diluted earnings per common share for any period presented. Prior year Consolidated Balance Sheets and Consolidated Statements of Cash Flows have been restated to conform to the 2002 presentation.

Defined Benefit Retirement Plan The status of our defined benefit pension plan obligations, related plan assets and cost is presented in Note 10 of Notes to Consolidated Financial Statements entitled Employee Benefit Plans. Plan obligations and annual pension expense are determined by actuaries using a number of key assumptions which include, among other things, the discount rate, the estimated future return on plan assets and the anticipated rate of future salary increases. The discount rate of 7.25% used for purposes of computing the 2002 annual pension expense was determined at the beginning of the calendar year based on high-quality corporate bond yields as of that date. We plan to lower the discount rate used for computing the 2003 annual pension expense to 6.75% due to a decline in high-quality corporate bond yields as of the end of 2002.

The estimated return on plan assets is primarily based on historical long-term returns of equity and fixed income markets according to our targeted allocation of plan assets (70% equity and 30% fixed income). While the weighted estimated return on asset rate assumption has been 9% in recent years, we plan to lower this rate to 7% for 2003 based on recent equity market performance compared to long-term historical averages.

The plan s accumulated benefit obligation exceeded the fair value of plan assets on December 31, 2002 and 2001 in amounts greater than the accrued pension liability previously recorded. Accordingly, we increased our accrual by $13.7 million in 2002 and $5.9 million in 2001 with the offset to accumulated other comprehensive loss, a reduction of stockholders equity.

As a result of the expected changes in assumptions for 2003 noted above and asset losses during 2002, we anticipate that pension expense will increase from $1.2 million in 2002 to $3.4 million in 2003. Cash contributions are anticipated to stay at the 2002 level in the range of $2 million to $3 million for 2003 and 2004, but using our current assumptions regarding asset performance and the interest rate environment, these will likely increase significantly in the future.

Related Party Transactions

As part of a $30 million equity infusion in January 1997, we entered into an agreement with Tutor-Saliba Corporation, or Tutor-Saliba, a construction company based in California, and Ronald N. Tutor, chief executive officer and sole stockholder of Tutor-Saliba, to provide certain management services. Tutor-Saliba participated in joint ventures with us before the agreement and continues to participate in joint ventures with us after the agreement. Our share of revenue from these joint ventures amounted to $36.8 million for the nine months ended September 30, 2003 and $48.8 million, $17.9 million and $4.6 million for the years ended December 31, 2002, 2001 and 2000, respectively. Primarily as a result of Tutor-Saliba participating in a $40 million equity infusion in March 2000, Tutor-Saliba currently owns approximately 12% of our outstanding common stock. Mr. Tutor has been our Chairman and Chief Executive Officer since March 2000. For details of compensation to Mr. Tutor, arrangements with Tutor-Saliba and other information on related party transactions, see Note 13 of Notes to Consolidated Financial Statements, Management and Certain Transactions included elsewhere in this prospectus.

Table of Contents

Recent Developments

On January 23, 2003, we completed the acquisition of James A. Cummings, Inc., or Cummings, a privately held construction company based in Fort Lauderdale, Florida. The acquisition was effective as of January 1, 2003 and, accordingly, the financial results of Cummings are included in our consolidated condensed financial statements since that date. See Note 5 of Notes to Consolidated Condensed Financial Statements as of September 30, 2003, for a further discussion and analysis of the acquisition of Cummings and related pro forma financial information.

In February 2003, the terms of our existing revolving credit facility were amended to, among other things, increase the revolving credit facility from $45 million to $50 million and to extend the term of our credit facility from January 2004 to June 2005. The credit facility, as amended, will provide us with greater flexibility in providing the working capital needed to support the anticipated growth of our construction activities. At September 30, 2003, we had $30.2 million available to borrow under our credit facility. On November 5, 2003, the terms of our revolving credit facility were further amended to provide a temporary $20 million increase in the revolving credit facility from $50 million to $70 million until January 31, 2004, to support the procurement requirements of a major project.

On June 9, 2003, we completed a tender offer for our $2.125 Depositary Convertible Exchangeable Preferred Shares, or Depositary Shares, each of which represent 1/10th of a share of $21.25 Convertible Exchangeable Preferred Stock, or the $21.25 Preferred Stock. As a result of this transaction, we purchased 440,627 of our Depositary Shares (representing approximately 44.1% of the outstanding $21.25 Preferred Stock) at a purchase price of $25.00 per Depositary Share, net to the seller without interest. See Note 8 of Notes to Consolidated Condensed Financial Statements. Including related expenses, this transaction resulted in an $11.3 million decrease in stockholders equity. Also as a result of this transaction, approximately $7.3 million of previously accrued and unpaid dividends on the $21.25 Preferred Stock was reversed and restored to paid-in surplus in the Consolidated Condensed Balance Sheets. Since these accrued dividends had previously been deducted from net income in the computation of earnings per share in prior fiscal quarters, the reversal of these accrued dividends resulted in the addition of $7.3 million to income available for common stockholders in the computation of earnings per share for the nine month period ended September 30, 2003.

Historically, we have evaluated our operating results based on two reportable segments: building and civil. During the fourth quarter of 2003, we adjusted the responsibilities of certain of our executive officers and, in accordance with Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, we reevaluated the criteria for determining our reportable segments. We have determined that a third business segment, management services, will be included as a reportable segment prospectively to align our reportable segments with current management responsibilities. Previously, our management services operations were included as part of our building segment. The management services segment will aggregate contracts that have a higher than normal geopolitical and operational risk and a corresponding potential for greater than normal gross margin volatility. The results to reflect this change for the nine months ended September 30, 2003 and 2002 and for each of the years ended December 31, 2002, 2001 and 2000 are set forth below:

Nine Months Ended September 30, 2003

	Reportable Segments					
	Building	Civil	Management Services	Totals	Corporate	Consolidated Total
	(in thousands)					
Revenues	$ 629,305	$ 134,507	$ 109,639	$ 873,451	$	$ 873,451
Income from Operations	9,228	1,684	11,389	22,301	(6,149)	16,152

Assets	163,055	245,573	23,618	432,246	32,166	464,412

24

Table of Contents

Nine Months Ended September 30, 2002

	Reportable Segments					
	Building	Civil	Management Services	Totals	Corporate	Consolidated Total
			(in thousands)			
Revenues	$ 488,111	$ 236,409	$ 97,962	$ 822,482	$	$ 822,482
Income from Operations	11,087	1,849	7,345	20,281	(4,675)	15,606
Assets	129,794	224,126	20,008	373,928	21,398	395,326

Year Ended December 31, 2002

	Reportable Segments					
	Building	Civil	Management Services	Totals	Corporate	Consolidated Total
			(in thousands)			
Revenues	$ 631,860	$ 312,528	$ 140,653	$ 1,085,041	$	$ 1,085,041
Income from Operations	14,487	6,390	11,738	32,615	(6,735)	25,880
Assets	130,270	223,036	27,971	381,277	21,112	402,389
Capital Expenditures	1,828	2,335	347	4,510		4,510

Year Ended December 31, 2001

	Reportable Segments					
	Building	Civil	Management Services	Totals	Corporate	Consolidated Total
			(in thousands)			
Revenues	$ 1,120,161	$ 353,957	$ 79,278	$ 1,553,396	$	$ 1,553,396
Income from Operations	26,596	3,918	5,016	35,530	(6,029)	29,501
Assets	213,463	246,326	20,559	480,348	20,893	501,241
Capital Expenditures	1,005	3,120	403	4,528		4,528

Year Ended December 31, 2000

	Reportable Segments					
	Building	Civil	Management	Totals	Corporate	Consolidated Total

			Services			
			(in thousands)			
Revenues	$ 740,555	$ 279,469	$ 85,636	$ 1,105,660	$	$ 1,105,660
Income from Operations	22,892	5,624	4,184	32,700	(5,345)	27,355
Assets	209,739	215,886	14,763	440,388	47,090	487,478
Capital Expenditures	513	1,066	214	1,793		1,793

In December 2003, our Task Order with the U.S. Army Corps of Engineers (COE) for additional power restoration work in Iraq was increased from an award of $66 million to a total Task Order value of $220 million. The Task Order was awarded under our Contingent Contract with COE s Transatlantic Program Center to provide design-build, general construction and operations and maintenance services in the U.S. Central Command s area of operations. The maximum potential value of the contract, which was originally $100 million, has been increased to $500 million.

On January 14, 2004**,** we were awarded a new contract for the COE Transatlantic Programs Center. The contract is an indefinite-delivery/indefinite quantity (IDIQ) contract for design and construction work throughout the U.S. Central Command Area of Responsibility which includes 25 countries, including Iraq and Afghanistan. The maximum potential value of the contract is $1.5 billion, with maximum values of $500 million for the base year and $250 million each for four option years.

Results of Operations

As discussed above, during the fourth quarter of 2003, we determined that a third business segment, management services, will be included as a reportable segment prospectively. Therefore, in order to provide a

25

Table of Contents

more meaningful discussion and analysis based on our prospective segment reporting structure, the historical Results of Operations below has been adjusted to reflect three business segments instead of two.

Comparison of the Nine Months Ended September 30, 2003 with the Nine Months Ended September 30, 2002

The overall increase in net income of $7.9 million, from $13.5 million to $21.4 million, was due primarily to the recognition of a $7.0 million federal tax benefit based on the expectation that we will be able to utilize a portion of our net operating loss carryforwards in future years.

Overall revenues increased by $50.9 million (or 6.2%), from $822.5 million in 2002 to $873.4 million in 2003. This increase was due primarily to an increase in building construction revenues of $141.2 million (or 28.9%), from $488.1 million in 2002 to $629.3 million in 2003, due primarily to the impact of the Cummings acquisition in January 2003 and improved new work acquisition results during the second and third quarters of 2003. Management services revenues increased by $11.6 million (or 11.8%), from $98.0 million in 2002 to $109.6 million in 2003 due primarily to the start-up in late 2002 of our initial contract in Afghanistan. These increases were partly offset by a decrease in civil construction revenues of $101.9 million (or 43.1%), from $236.4 million in 2002 to $134.5 million in 2003. The decrease in revenues from civil construction operations primarily reflects the decrease in our year-end backlog at December 31, 2002 compared to the year-end backlog at December 31, 2001, as the pace of new contract awards slowed during the past 18 months due to a temporary decrease in the number of public works projects available to bid and increased competition encountered from other contractors when bidding on the reduced level of work available .

Income from operations (excluding corporate) increased by $2.0 million (or 9.9%), from $20.3 million in 2002 to $22.3 million in 2003. Management services income from operations increased by $4.0 million (or 54.1%), from $7.4 million in 2002 to $11.4 million in 2003 due primarily to the increase in revenues discussed above as well as favorable cost experience on two fixed price overseas projects. Despite the favorable impact of the Cummings acquisition, building construction income from operations decreased by $1.8 million, from $11.0 million in 2002 to $9.2 million in 2003. Building construction income from operations was negatively impacted by a $1.5 million increase in building construction-related general and administrative expenses (exclusive of Cummings) primarily in connection with the pursuit of new work opportunities including the opening or expansion of new regional offices in Florida and California. Civil construction income from operations decreased by $0.2 million, from $1.9 million in 2002 to $1.7 million in 2003, due primarily to the decrease in revenues discussed above and partly offset by a higher gross profit margin in 2003 primarily because 2002 included recognition of our share of a loss on a Central Artery/Tunnel Big Dig joint venture project, or the Big Dig Project, in Boston, Massachusetts. Income from operations was negatively impacted by a $1.5 million increase in corporate general and administrative expenses, from $4.7 million in 2002 to $6.2 million in 2003, due primarily to an aggregate increase in several items including outside professional fees relating to the annual audit of our financial statements and to the $21.25 Preferred Shareholders Class Action Lawsuit (see Note 6(g) of Notes to Consolidated Condensed Financial Statements) and certain corporate insurance premium costs.

Interest expense decreased by $0.4 million, from $1.1 million in 2002 to $0.7 million in 2003, due to lower interest rates.

The credit for income taxes in 2003 is due primarily to the recognition of a $7.0 million federal tax benefit in accordance with SFAS No. 109, Accounting for Income Taxes, based on the expectation that we will be able to utilize an additional amount of our net operating loss carryforwards in future years. In addition, the (provision) credit for income taxes reflects a lower-than-normal tax rate in both years due primarily to the realization of a portion of the federal tax benefit not recognized in prior years due to certain accounting limitations. Also, the provision for income taxes in 2002 reflects the reversal of the federal alternative minimum tax provided in 2001 which was no longer required based on the provisions of the Job Creation and Worker Assistance Act of 2002.

As discussed above, as a result of the completion of our tender offer for our Depositary Shares, $7.3 million in previously accrued preferred stock dividends was reversed and added back to income available for common stockholders in the computation of earnings per share for the nine months ended September 30, 2003. Accordingly, in addition to the higher net income for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002, basic and diluted earnings per common share in 2003 benefited by $0.32 and $0.31 per share, respectively, from the impact of the completion of the tender offer transaction. Basic earnings per common share were $1.20 in 2003 compared to $0.53 in 2002. Diluted earnings per common share were $1.17 in 2003 compared to $0.52 in 2002.

Comparison of the Year Ended December 31, 2002 to December 31, 2001

Net income for the year ended 2002 was $23.1 million, a 12.5% decrease from the record $26.4 million net income recorded in 2001. Basic earnings per common share were $0.92 for the year ended 2002 compared to $1.07 for the year ended 2001. Diluted earnings per common share were $0.91 per common share compared to $1.04 for the year ended 2001. Overall, the decrease in 2002 operating results reflected a continued strong but lower profit contribution from the building construction segment and increased profit contributions from both the management services and civil construction segments.

Overall, revenues decreased by $468.4 million (or 30.2%), from $1,553.4 million in 2001 to $1,085.0 million in 2002. This decrease was due primarily to a decrease in building construction revenues of $488.2 million (or 43.6%), from $1,120.1 million in 2001 to $631.9 million in 2002. Civil construction revenues decreased $41.5 million (or 11.7%), from $354.0 million in 2001 to $312.5 million in 2002. The decrease in revenues from building construction operations was due primarily to the decrease in our year-end backlog at December 31, 2001 compared to the record year-end backlog at December 31, 2000, including a decreased volume of work at the Mohegan Sun Project in Connecticut, as well as on two large hotel/casino projects in the southwestern United States, all of which were substantially completed in early 2002. The decrease in revenues from civil construction operations was also due primarily to the decrease in our year-end backlog at December 31, 2001 compared to the record year-end backlog at December 31, 2000. These decreases were partly offset by an increase in management services revenues of $61.3 million (or 77.3%), from $79.3 million in 2001 to $140.6 million in 2002, due primarily to a higher volume of work on power facilities maintenance projects due to a higher number of scheduled plant shutdowns in 2002. Based on the current backlog of such work, this trend is not expected to continue in future years.

Income from operations (excluding corporate) decreased by $2.9 million (or 8.2%), from $35.5 million in 2001 to $32.6 million in 2002. Building construction income from operations decreased by $12.1 million, from $26.6 million in 2001 to $14.5 million in 2002, due primarily to the decrease in revenues discussed above. This decrease was partly offset by an increase in the average gross margin on building construction contracts from 3.5% in 2001 to 4.7% in 2002, due primarily to favorable close-out experience on several hotel/casino projects in 2002. In addition, building construction income from operations was negatively impacted by a $1.8 million (or 13.7%) increase in building construction-related general and administrative expenses primarily in connection with the pursuit of new work opportunities, including the opening of a new office near Orlando, Florida. Management services income from operations increased by $6.7 million, from $5.0 million in 2001 to $11.7 million in 2002, due primarily to the increase in revenues discussed above as well as favorable cost experience on a fixed price overseas project. Civil construction income from operations increased by $2.5 million, from $3.9 million in 2001 to $6.4 million in 2002, due primarily to favorable cost experience on a fixed price civil infrastructure project in New York City in 2002 as well as recognition of a smaller loss in 2002 compared to 2001 on the Big Dig Project. In addition, civil construction income from operations was negatively impacted by a $1.2 million (or 20.7%) increase in civil construction-related general and administrative expenses, due primarily to a reduced ability to allocate expenses to various joint ventures as well as an increase in outside legal fees.

Interest expense decreased by $0.5 million, from $2.0 million in 2001 to $1.5 million in 2002, due primarily to a reduction in the average amount of debt outstanding under our credit facility as well as lower interest rates in 2002.

The lower than normal tax rate for the three-year period ended December 31, 2002 is primarily due to the utilization of tax loss carryforwards from prior years. Because of certain accounting limitations, we were not able to recognize a portion of the tax benefit related to the operating losses experienced in fiscal 1999, 1996 and 1995. As of December 31, 2002, an amount estimated to be approximately $79 million of future pretax earnings could benefit from minimal, if any, federal tax provisions. The net deferred tax assets reflect management s estimate of the amount that will, more likely than not, be realized. See Note 4 of Notes to Consolidated Financial Statements. In addition, the provision for income taxes in 2002 reflects the reversal of the federal alternative minimum tax provided in 2001, which is no longer required based on the provisions of the Job Creation and Worker Assistance Act of 2002, and the credit for income taxes in 2000 reflect the reversal of foreign taxes accrued in prior years that were no longer required.

Comparison of the Year Ended December 31, 2001 to December 31, 2000

Net income for the year ended 2001 increased 8% to a record $26.4 million, compared to net income of $24.4 million for the year ended 2000. Basic earnings per common share were $1.07 for the year ended 2001, as compared to $0.39 for the year ended 2000. Diluted earnings per common share were $1.04 for the year ended 2001, as compared to $0.39 for the year ended 2000. Overall, the improved 2001 operating results reflect a continued strong and improved profit contribution from the building construction segment and, to a lesser extent, the positive impact of lower interest expense due primarily to continued reduction in the amount of long-term debt outstanding and lower interest rates in 2001.

Overall, revenues increased $447.7 million (or 40.5%), from $1,105.7 million in 2000 to a record $1,553.4 million in 2001. This increase was due primarily to an increase in building construction revenues of $379.5 million (or 51.2%), from $740.6 million in 2000 to $1,120.1 million in 2001. In addition, civil construction revenues increased $74.5 million (or 26.7%), from $279.5 million in 2000 to $354.0 million in 2001. Management services revenues decreased by $6.3 million (or 7.4%), from $85.6 million in 2000 to $79.3 million in 2001. The increase in revenues from building construction operations was due primarily to our record year-end backlog at December 31, 2000, including an increase in the volume of work completed at the Mohegan Sun Project in Connecticut, as well as the construction of three large hotel/casino projects in the southwestern United States. The increase in revenues from civil construction operations also reflected our record year-end backlog at December 31, 2000, including the start-up of several infrastructure projects in the metropolitan New York area.

Income from operations (excluding corporate) increased by $2.8 million (or 8.6%), from $32.7 million in 2000 to $35.5 million in 2001 due to increases in income from building construction operations and management services operations that more than offset a decrease in income from civil construction operations. Building construction income from operations increased by $3.7 million (or 16.2%), from $22.9 million in 2000 to $26.6 million in 2001, due primarily to the increase in revenues discussed above which was largely offset by a decrease in the gross margin from 4.6% in 2000 to 3.5% in 2001 because 2000 included the favorable close-out of certain projects. In addition, building construction income from operations was negatively impacted by a $2.1 million (or 19.1%) increase in building construction-related general and administrative expenses primarily in connection with the pursuit of new work opportunities. Despite the slight decrease in management services revenues discussed above, management services income from operations increased by $0.8 million (or 19.0%), from $4.2 million in 2000 to $5.0 million in 2001, due primarily to an upward profit revision on an overseas project. Moreover, management services income from operations was negatively impacted by a $1.5 million (or 88.2%) increase in management services related general and administrative expenses primarily in connection with the pursuit of new work opportunities. Despite the increase in civil construction revenues discussed above, civil construction income from operations decreased by $1.7 million (or 30.4%), from $5.6 million in 2000 to $3.9 million in 2001, due primarily to a downward profit revision on the Big Dig Project.

Other (income) expense decreased by $1.1 million, from a net income of $0.9 million in 2000 to a net expense of $0.2 million in 2001, due primarily to a decrease in interest income as a result of a decrease in the level of short-term cash investments, as well as lower interest rates in 2001.

28

Table of Contents

Interest expense decreased by $2.0 million, from $4.0 million in 2000 to $2.0 million in 2001, due primarily to the continued reduction in the amount of long-term debt outstanding under our credit facility as described in Note 3 of Notes to Consolidated Financial Statements, as well as lower interest rates in 2001.

Liquidity and Capital Resources

Cash and Working Capital

Cash and cash equivalents as reported in the accompanying Consolidated Condensed Statements of Cash Flows consist of amounts held by us as well as our proportionate share of amounts held by construction joint ventures. Cash held by us is available for general corporate purposes while cash held by construction joint ventures is available only for joint venture-related uses. Cash held by construction joint ventures is distributed from time to time to us and to the other joint venture participants in accordance with their percentage interest after the joint venture partners determine that a cash distribution is prudent. Cash distributions received by us from our construction joint ventures are then available for general corporate purposes. At September 30, 2003 and December 31, 2002, cash held by us and available for general corporate purposes was $17.0 million and $11.2 million, respectively, and our proportionate share of cash held by joint ventures and available only for joint venture-related uses was $28.4 million and $35.8 million, respectively.

Billing procedures in the construction industry generally are based on the specific billing terms of a contract and are often not correlated with performance. For example, billings may be based on various measures of performance, such as cubic yards excavated, architect s estimates of completion, costs incurred on cost-plus type contracts or weighted progress from a cost loaded construction time schedule. Billings are generally on a monthly basis and are reviewed and approved by the customer prior to submission. Therefore, once a bill is submitted, we are generally able to collect amounts owed to us in accordance with the payment terms of the contract. In addition, contractor s receivables usually include retentions, or amounts that are not due until contracts are completed or until specified contract conditions or guarantees are met. Retentions are governed by contract provisions and are typically a fixed percentage (for example, 5% or 10%) of each billing. We generally follow the policy of paying our vendors and subcontractors on a particular project after we receive payment from our customer.

A summary of our cash flows for the nine months ended September 30, 2003 and for each of the three years ended December 31, 2002, 2001 and 2000 is set forth below:

	Nine Months Ended	Year Ended December 31,		
	September 30, 2003	2002	2001	2000
		(in millions)		
Cash flows from:				
Operating activities	$ 4.7	$ (3.6)	$ (24.2)	$ 0.8
Investing activities	(9.7)	(0.6)	(5.5)	0.1
Financing activities	3.4	(5.3)	(9.5)	(8.3)
Net decrease in cash	$ (1.6)	$ (9.5)	$ (39.2)	$ (7.4)
Cash at beginning of period	47.0	56.5	95.8	103.2
Cash at end of period	$ 45.4	$ 47.0	$ 56.6	$ 95.8

During the first nine months of 2003, we generated $4.7 million in cash flow from operating activities, $13.9 million from a net increase in debt and $2.1 million in net proceeds from the sale of certain remaining parcels of developed land held for sale to fund the $11.3 million required to complete our tender offer for our Depositary Shares, as well as to fund a net $11.8 million used by investing activities, primarily for the acquisition of Cummings in January and to acquire construction equipment and an office building and equipment storage facility to be used by our civil construction operations. As a result, our consolidated cash balance decreased by $1.6 million, from $47.0 million at December 31, 2002 to $45.4 million at September 30, 2003. As more fully

Table of Contents

discussed in Note 6(d) of Notes to Consolidated Condensed Financial Statements, in the first quarter of 2003 we received our proportionate share of provisional payments against outstanding claims on the Big Dig Project, as a result of an agreement reached in December 2002. This approximately $13.3 million payment was a significant contributor to the $4.7 million in cash flow generated from operating activities in the first nine months of 2003.

During 2002, we used $9.5 million of cash on hand to fund operating activities ($3.6 million), investing activities ($0.6 million) and financing activities to reduce debt by a net amount of $5.3 million. The $3.6 million in cash used by operating activities was due primarily to the need to fund working capital requirements on certain joint venture construction contracts where unapproved change orders and contract claims remain to be resolved. See Note 1(d) of Notes to Consolidated Financial Statements.

During 2001, we used $39.2 million of cash on hand to fund operating activities ($24.2 million), investing activities ($5.5 million), primarily for the acquisition of property and equipment, and financing activities ($9.5 million), primarily to reduce debt by a net amount of $9.8 million. Cash generated from operating activities decreased from a positive $0.8 million in 2000 to a negative $24.2 million in 2001 due primarily to the need to fund working capital requirements on certain of our construction contracts where unapproved change orders or contract claims remain to be resolved. See Note 1(d) of Notes to Consolidated Financial Statements.

During 2000, we generated $0.8 million in cash from operating activities and $0.1 million in cash from investing activities. The funds generated together with $7.4 million in cash on hand were used for financing activities ($8.3 million) primarily to reduce debt. Financing activities in 2000 include net proceeds of $37.3 million received from the issuance of common stock in connection with our recapitalization as discussed in Note 7 of Notes to Consolidated Financial Statements, as well as net proceeds of $7.1 million received from a refinancing of our corporate headquarters building. These funds were primarily used to reduce debt.

During 2000, our liquidity was significantly enhanced by the sale of 9,411,765 shares of common stock for an aggregate of $40 million (before fees and expenses) and by the refinancing of our corporate headquarters building for $7.5 million (before fees and expenses). See Notes 3 and 7 of Notes to Consolidated Financial Statements. These financing transactions enabled us to reduce our dependence on bank debt to fund the working capital needs of our core construction operations, resulting in a significant reduction in interest expense. Also, in January 2002, we entered into an agreement with a new lender group to refinance our existing credit facility with a new $45 million revolving credit facility.

Working capital increased, from $115.9 million at the end of 2002 to $122.1 million at September 30, 2003. The current ratio decreased from 1.44x compared to 1.40x during the same period. Since December 31, 2000, working capital has increased by $41.6 million (or 52%), from $80.5 million to $122.1 million at September 30, 2003, and the current ratio has improved to 1.40x from 1.20x during the same period. As of September 30, 2003, accounts and notes receivable amounted to $256.3 million and comprised approximately 60% of our total current assets. This compares to accounts and notes receivable of $218.2 million, or approximately 57% of our total current assets, at December 31, 2002.

In February 2003, the terms of our existing revolving credit facility were amended to, among other things, increase the revolving credit facility from $45 million to $50 million and to extend the term of our credit facility from January 2004 to June 2005. On November 5, 2003, the terms of our revolving credit facility were further amended to provide a temporary $20 million increase in the revolving credit facility from $50 million to $70 million until January 31, 2004, to support the procurement requirements of a major project.

The terms of our credit facility require us to meet certain financial covenants, including:

a minimum working capital ratio of current assets over current liabilities;

a minimum tangible net worth;

a minimum interest coverage ratio of net operating profit over covered charges (which includes interest expense and current period dividends on our preferred stock); and

minimum operating profit levels.

Table of Contents

The terms of our credit facility also impose limitations on certain additional indebtedness that we may incur and the level of capital expenditures that we may make for a period, as well as restrictions on the purchase and sale of assets outside of the normal course of business.

Our obligations under our credit facility are guaranteed by substantially all of our current and future subsidiaries, and secured by substantially all of our and our subsidiary guarantors assets, including a pledge of all of the capital stock of our subsidiary guarantors. At September 30, 2003, we had $30.2 million available to borrow under our credit facility.

Long-term Debt

Long-term debt at September 30, 2003 was $25.6 million, an increase of $13.4 million from December 31, 2002, due primarily to our completion in June of a tender offer for our Depositary Shares which required a cash outlay of approximately $11.3 million (including related expenses). The long-term debt to equity ratio was .25x at September 30, 2003, compared to .14x at December 31, 2002. Long-term debt was $12.1 million at the end of 2002, up from $7.5 million in 2001 and down compared to $17.2 million in 2000 and $41.1 million in 1999.

Stockholders Equity

As more fully described in Note 7 of Notes to Consolidated Financial Statements, effective March 29, 2000, we completed a recapitalization which included the sale of 9,411,765 shares of common stock for an aggregate of $40 million in cash (before fees and expenses) and the exchange of 100% of our Redeemable Series B Cumulative Convertible Preferred Stock for an aggregate of 7,490,417 shares of common stock. The effect of the recapitalization on our stockholders equity was to increase stockholders equity by approximately $76.2 million, from a negative net worth of approximately $36.6 million at December 31, 1999 to a positive net worth of approximately $39.6 million upon completion of the recapitalization.

Our book value per common share was $3.92 at September 30, 2003, compared to $2.72 at December 31, 2002, $2.40 at December 31, 2001, and $1.57 at December 31, 2000. The major factors impacting stockholders equity during the three year and nine month period ended September 30, 2003 were the recapitalization completed in 2000, the net income recorded, the tender offer completed in June 2003, and, to a lesser extent, preferred dividends paid in-kind or accrued, and common stock options exercised. Also, we were required to recognize an additional minimum pension liability of approximately $13.7 million in 2002 and $5.9 million in 2001 in accordance with SFAS No. 87, Employers Accounting for Pensions which resulted in an aggregate $19.6 million accumulated other comprehensive loss deduction in stockholders equity. See Note 10 of Notes to Consolidated Financial Statements. Adjustments to the amount of this additional minimum pension liability will be recorded in future years based upon periodic re-evaluation of the funded status of our pension plans.

Dividends

Common Stock

There were no cash dividends declared or paid on our outstanding common stock during the three years ended December 31, 2002 or during the nine months ended September 30, 2003.

$21.25 Preferred Stock

The covenants in our prior credit agreements required us to suspend the payment of quarterly dividends on our $21.25 Preferred Stock in 1995 until certain financial criteria were met. While quarterly dividends on the $21.25 Preferred Stock have not been paid since 1995, they have been fully accrued due to the cumulative feature of the $21.25 Preferred Stock.

As of December 31, 2002, the aggregate amount of dividends in arrears was approximately $15.4 million, which represented approximately $154.05 per share of $21.25 Preferred Stock or approximately $15.41 per Depositary Share and is included in other long-term liabilities in the Consolidated Balance Sheets. On June 9, 2003, we completed a tender offer for our Depositary Shares pursuant to which we purchased 440,627 Depositary Shares for $25 per share. See Recent Developments. As a result of this transaction, approximately $7.3 million of previously accrued and unpaid dividends was reversed and restored to paid-in surplus in the Consolidated Condensed Balance Sheets. Accordingly, the aggregate amount of dividends in arrears at September 30, 2003 is $9.5 million, which represents approximately $170.00 per share of $21.25 Preferred Stock or approximately $17.00 per Depositary Share and is included in other long-term liabilities in the Consolidated Condensed Balance Sheets. Under the terms of the $21.25 Preferred Stock, the holders of Depositary Shares became entitled to elect two additional Directors once dividends were deferred for more than six quarters, and they have done so at each of the last six annual meetings of stockholders.

As of December 31, 2000, our credit facility no longer restricted the payment of dividends. However, our Board of Directors has not since then decided that our working capital and other conditions warranted the resumption of payment of the regular dividend or any of the dividends in arrears on the $21.25 Preferred Stock. We do not have any plans or target date for resuming the dividend, given the following circumstances:

- A strong working capital position provides us with the option of performing large projects without a joint venture partner or to assume the sponsoring partner position resulting in a larger proportionate interest and a greater share of joint venture profits.

- A significant amount of working capital is dedicated to the funding requirements of our construction backlog, including collection of receivables and the resolution of unapproved change orders and contract claims, and to obtaining surety bonds required by our business.

- We are pursuing a strategy of expanding our construction business internally and through acquisitions, both of which will likely require additional capital. In January 2003, we completed the acquisition of Cummings for $20.0 million. See Note 14 of Notes to Consolidated Financial Statements.

Series B Cumulative Convertible Preferred Stock

For an analysis of in-kind dividends paid on the Series B Cumulative Convertible Preferred Stock, or the Series B Preferred Stock, for the period from December 31, 1999 to March 29, 2000, the date on which the holders of Series B Preferred Stock exchanged their shares of Series B Preferred Stock into shares of our common stock, see Note 8(b) of Notes to Consolidated Financial Statements.

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk for changes in interest rates relates primarily to our revolving credit debt (see Note 3 of Notes to Consolidated Financial Statements) and short-term investment portfolio. As of September 30, 2003, we had $17.0 million borrowed under our revolving credit facility and $37.3 million of short-term investments classified as cash equivalents.

We borrow under our revolving credit facility for general corporate purposes, including working capital requirements and capital expenditures. Borrowings under the credit facility bear interest at the applicable LIBOR or base rate, as defined, and therefore, we are subject to fluctuations in interest rates. If the average effective 2003 borrowing rate to date of 3.75% changed by 10% (or 0.375%) during the next twelve months, the impact, based on our September 30, 2003 revolving debt balance, would be an increase or decrease in net income and cash flow of approximately $64,000.

Our short-term investment portfolio consists primarily of highly liquid instruments with maturities of three months or less.

Table of Contents

BUSINESS

General

We are a leading construction services company, based on revenues, as ranked by Engineering News-Record, offering diversified general contracting, construction management and design-build services to private clients and public agencies throughout the world. We have provided construction services since 1894 and have established a strong reputation within our markets by executing large, complex projects on time and within budget while adhering to strict quality control measures. We offer general contracting, preconstruction planning and comprehensive project management services, including the planning and scheduling of the manpower, equipment, materials and subcontractors required for a project. We also offer self-performed construction services including earthwork, concrete forming and placement and steel erection. During the nine months ended September 30, 2003, we performed work on over 100 construction projects for over 75 federal, state and local government agencies or authorities and private customers. Our headquarters are in Framingham, Massachusetts, and we have seven other principal offices throughout the United States. As of September 30, 2003, we employed approximately 3,400 people. Our common stock is currently listed on the American Stock Exchange under the symbol PCR.

Our business is now conducted through three primary segments: building, civil, and management services. Our building segment, comprised of Perini Building Company and James A. Cummings, Inc., focuses on large, complex projects in the hospitality and gaming, sports and entertainment, educational, transportation and healthcare markets. Our civil segment is involved in public works construction primarily in the northeastern United States, including the repair, replacement and reconstruction of the United States public infrastructure such as highways, bridges and mass transit systems. Our management services segment provides diversified construction, design-build and maintenance services to the U.S. military and government agencies as well as power producers, surety companies and multi-national corporations.

Industry Overview

The overall construction industry has experienced significant growth over the past seven years. Based on data from the U.S. Census Bureau, the annual value of construction put-in-place has grown at a 6.4% compound annual growth rate since 1995. Growth in our private end markets is largely driven by the continued strong demand for hospitality and gaming, sports and entertainment, education and healthcare facilities. McGraw-Hill, an industry data source, is projecting that the value of contracts for hotels and motels will increase 14.6% in 2004, representing one of the fastest growing segments of non-residential construction which is projected to grow by approximately 4.0% in 2004. In addition, the U.S. Department of Commerce is projecting 5.0% and 1.9% growth in 2004 for construction put-in-place within healthcare and education construction, respectively.

In our public end markets, despite declining tax revenues, the federal government has increased expenditures on national defense, and municipalities have increased expenditures on the repair, replacement and reconstruction of the public infrastructure. For example, the United States federal government has recently approved a spending bill for the reconstruction and defense of Iraq and has allocated significant funds to the defense of United States interests around the world from the threat of terrorism. In addition, McGraw-Hill is forecasting an increase in the value of contracts in highways and bridges of 2.0% in 2004.

We are currently tracking more than 90 opportunities for our building segment, which include private and public projects with combined potential revenue to the successful contractors in excess of $10 billion for the period between 2004 and 2006. In the civil segment, we have identified approximately 60 opportunities with potential revenue to the successful contractors of $8 billion over that same time period to repair and replace the aging infrastructure in the markets we serve. Our management services segment has identified approximately 10 opportunities with potential revenues to the successful contractors in excess of $2 billion during that same time period.

Table of Contents

Business Segment Overview

Historically, we have evaluated our operating results based on two reportable segments: building and civil. During the fourth quarter of 2003, we adjusted the responsibilities of certain of our executive officers and, in accordance with Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, we reevaluated the criteria for determining our reportable segments. We have determined that a third business segment, management services, will be included as a reportable segment prospectively to align our reportable segments with current management responsibilities. Previously, our management services operations were included as part of our building segment. The management services segment will aggregate contracts that have a higher than normal geopolitical and operational risk and a corresponding potential for greater than normal gross margin volatility.

Building Segment

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

We believe the hospitality and gaming market provides significant opportunities for growth. We are a recognized leader in this market, specializing in the construction of high-end destination resorts and casinos and Native American developments. We work with hotel operators, Native American tribal councils, developers and architectural firms to provide diversified construction services to meet the challenges of new construction and renovation of hotel and resort properties. We believe that our reputation for completing projects on time is a significant competitive advantage in this market, as any delay in project completion may result in significant loss of revenues for the customer. In Engineering News-Record s, or ENR s, 2003 rankings, we ranked as the nation s 26th largest contractor in the general building market, 3rd largest builder in the hotel, motel and convention center market and as one of the top 25 builders in the sports, entertainment and government office buildings markets, based on revenue.

As a result of our reputation and track record, we have been involved in many marquee projects. These include hospitality and gaming projects such as the Paris Hotel and Casino in Las Vegas, NV; the Gaylord Palms Resort and Convention Center in Orlando, FL; and the Grand Resorts Hotel/Casino Expansion in Atlantic City, NJ. In the sports and entertainment market, we have been involved in projects such as the Bank One Ballpark in Phoenix, AZ and The Palace at Auburn Hills in Auburn Hills, MI. In our other end markets, we have been involved in large, complex projects such as the Airport Parking Garage and Rental Car Facility in Ft. Lauderdale, FL; the Florida International University Health & Life Sciences Building in Miami, FL; and the South Shore Hospital expansion in Weymouth, MA.

In January 2003, we acquired Cummings to expand our presence in the southeast region of the United States. Cummings, which is now our wholly owned subsidiary, specializes in the construction of schools, municipal buildings and commercial developments.

Our building segment revenues and income from operations for the nine months ended September 30, 2003 were $629.3 million and $9.2 million, respectively, which is an increase of 28.9% and a decrease of 16.4%, respectively, over the same period in 2002. This segment also accounted for $749 million, or 56%, of our $1.33 billion backlog as of September 30, 2003.

Table of Contents

Civil Segment

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

We have been active in civil construction since 1894 and believe we have developed a particular expertise in large, complex civil construction projects. ENR s 2003 rankings place us as the 20th largest builder of general transportation projects in the country and as a top 25 builder in mass transit and rail, bridges and highways. We have completed or are currently working on some of the most significant civil construction projects in the northeast including a portion of Boston s Big Dig project, the Williamsburg Bridge reconstruction, New Jersey Light Rail Transit, the Triborough Bridge, Jamaica Station and the Long Island Expressway.

Our civil segment revenues and income from operations for the nine months ended September 30, 2003 were $134.5 million and $1.7 million, respectively, which is a decrease of 43.1% and 10.5%, respectively, over the same period in 2002. This segment also accounted for $243 million, or 18%, of our $1.33 billion backlog as of September 30, 2003.

Management Services Segment

Our management services segment provides diversified construction, design-build and maintenance services to the U.S. military and government agencies, power suppliers, surety companies and multi-national corporations in the United States and overseas. We believe customers choose our services based on our ability to plan and execute rapid response assignments and multi-year contracts through our diversified construction and design-build abilities. Furthermore, we believe we have demonstrated consistently superior performance on competitively bid or negotiated multi-year, multi-trade, task order and ID/IQ (Indefinite Delivery/Indefinite Quantity) construction programs. Most recently, we have been chosen by the federal government for significant projects related to defense and reconstruction projects in Iraq and Afghanistan. For example, we are currently working on the reconstruction of electric power facilities in southern Iraq. In addition, we recently completed a project to construct the entire infrastructure for a 6,000-person base for the new Afghan army and have recently begun construction of similar facilities at another base.

We believe we are well positioned to capture additional projects that involve long-term contracts and provide a recurring source of revenues as government expenditures for defense and homeland security increase in response to the global threat of terrorism. For example, we have a multi-year contract with the U.S. Department of State, Office of Overseas Buildings Operations, to perform design-build security upgrades at U.S. embassies and consulates throughout the world including Argentina, Brazil, Czech Republic, Laos, Pakistan, the Philippines and Taiwan. In addition, our proven abilities with federal government projects have enabled us to win contracts from private defense contractors who are executing projects for the federal government. For example, we have been awarded design and construction contracts by Raytheon Integrated Defense Systems for upgrades to radar facilities at Beale Air Force Base in California and the Cobra Dane Facility on Shemya Island, Alaska, to meet the requirements of a new early warning radar system.

We also provide diversified management services to power producers, surety companies and multi-national corporations. Under a five-year contract expiring at the end of 2006, we provide planning, management, maintenance and modification services at 10 nuclear power generating stations, including 17 operating units. We are also under agreement with a major North American surety company to provide rapid response, contract completion services. Upon notification from the surety of a contractor bond default, we provide management or general contracting services to fulfill the contractual and financial obligations of the surety.

Our management services segment revenue and income from operations for the nine months ended September 30, 2003 were $109.6 million and $11.4 million, respectively, which is an increase of 11.8% and 54.1%, respectively, over the same period in 2002. This segment also accounted for $340 million, or 26%, of our $1.33 billion backlog as of September 30, 2003.

Competitive Strengths

We believe our record of delivering large, complex construction projects on time for our clients provides us with a significant competitive advantage. Our commitment to producing high quality results is augmented by the following principal competitive strengths:

Market Leadership in Several High-Growth Building End Markets. In ENR s 2003 rankings, based on revenue, we ranked as the nation s 26th largest contractor in the general building market, 3rd largest builder in the hotel, motel and convention center market and one of the top 25 builders in the sports, entertainment and government office buildings markets. We also have significant experience in constructing educational facilities, such as university buildings and schools, correctional and healthcare facilities. Our significant experience, strong relationships, market leadership, design-build expertise and presence in key domestic markets allow us to successfully complete large projects that often require responsiveness, fast-track schedules, elaborate designs and advanced construction techniques in these high-growth building end markets.

Extensive Experience in Complex Civil Construction. For over 100 years, we have specialized in the repair, replacement and construction of highways and bridges, mass transit systems and water and wastewater systems, principally in the metropolitan New York and Boston markets. Our expertise and focus is on large, complex projects, particularly in dense urban areas and extends from publicly bid construction projects to negotiated design-build contracts.

Responsiveness and Performance with Challenging Projects. We have established a favorable reputation for our ability to execute challenging projects on time, on budget and to the customer s specifications. For example, we have been the contractor of choice for many large hotels, casinos and sports arenas because of our demonstrated ability to complete technically challenging construction projects. These projects often have accelerated completion schedules and demanding standards for quality, factors which are often more important to their owners than achieving the lowest cost. Furthermore, in providing services to government agencies, we have demonstrated our ability to rapidly and effectively respond to construction and related support needs in remote and sometimes volatile environments. For example, we recently performed design-build security upgrades at U.S. embassies throughout the world and currently are engaged in significant re-construction activities in Iraq and Afghanistan. Our clients often rely on us to respond rapidly to complete large, complex projects in challenging business or operating environments throughout the world.

Long-Term Relationships and Operating History with Clients. We maintain strong, long-term relationships with many of our clients. This is particularly beneficial in our building and management services segments where it often enables us to negotiate, rather than bid for, contracts. These relationships are very valuable as project owners begin to plan renovations of, or expansions to, existing projects, which occurs frequently in the hospitality and gaming market, or when owners such as the U.S. Army Corps of Engineers seek to execute support facility construction. Due to our historical involvement with numerous large projects, we have developed a detailed database of significant contract cost elements, project specifications and owner requirements, which often allows us to complete expansions or renovations, or to integrate improvements into new projects faster and more efficiently than our competitors.

Focus on Managing Contract and Project Risk. Our extensive experience and history in our markets provide us with an understanding of the risks associated with certain projects. We mitigate risk in a variety of ways, including a thorough bid review and approval process, incorporating safeguards into our contracts, subcontracting certain project components to other contractors, quickly and effectively communicating with our clients with regard to changes in project scope or size and by structuring our contracts or pursuing joint venture arrangements to provide a balance between risk and reward opportunity. For example, approximately 25% of our revenues for the first nine months of 2003 were earned through fixed price contracts, which provide greater reward opportunities but are accompanied by higher risk, while the remaining 75% were earned through lower risk cost-plus, guaranteed maximum price or construction management contracts. We constantly weigh opportunity and risks in our overall project portfolio and balance exposures across project types, industries, owners and contract types.

Experienced Management Team and Highly Skilled Workforce. Our senior management team has an average of 29 years in the construction industry and 23 years with us. We benefit from this experience in many ways, including construction and management expertise, extensive customer relationships, longstanding relationships with experienced subcontractors in various markets and a strong corporate culture. Our workforce is also key to our success, bringing diverse work experiences as well as specialized project expertise to our team.

Growth Strategy

We will seek to increase shareholder value by pursuing the following growth strategies:

Leverage Leadership Position in Hospitality and Gaming Market. We are among the nation s largest contractors for casinos, hotels and convention centers. We believe that demand for new construction in the hospitality and gaming market will continue to expand due to increased consumer spending on leisure and sports and entertainment activities driven by increasing consumer disposable income. In addition, we are observing increased planning and construction activities for hospitality and gaming projects among Native American sovereign nations in locations throughout the country. Moreover, even after initial construction, hospitality and gaming facilities often undertake significant renovation and expansion projects in order to continue to attract clientele. These market dynamics present an attractive business opportunity for our building segment. We intend to leverage our leadership position in this market by emphasizing our experience and expertise, as well as our proven ability to complete challenging projects on accelerated schedules on time and within budget, and our strong relationships and reputation among industry participants.

Extend Building Construction Expertise to Additional Markets. As we expand our market presence within particular project types or geographic areas, we will seek opportunities to cross-utilize our building construction expertise. For instance, we have been able to successfully leverage the experience we gained from constructing hospitality and gaming projects in Nevada and selected sports arenas into new markets and related projects. Also, with our recent acquisition of Cummings, we established a significant market presence in south Florida, particularly in the construction of schools, municipal buildings and commercial facilities. We believe this market presence will enhance and accelerate our ability to successfully compete in other end markets in the state of Florida. We will pursue these and related opportunities to extend our construction expertise to building end markets and geographical areas where we hold a competitive advantage.

Pursue Expanding Federal Contracting Opportunities for Defense, Reconstruction and Security. We have well established relationships with U.S. government agencies that include, among others, the Departments of Defense and State. These customers represent growth opportunities for us, particularly with the expanded outsourcing of federal jobs and increased spending on defense, reconstruction and security. Our ability to effectively compete for this growing business is strengthened by our proven ability to respond rapidly to technically challenging assignments. During the 1995 through 2001 period, we were under contract with the United States Navy to provide rapid response construction services worldwide. In Afghanistan, we recently completed the construction of buildings and infrastructure for a 6,000-person base to be used by the new Afghan army and have recently begun construction of similar facilities at another base. In April 2003, we were awarded a

37

Table of Contents

contract by the U.S. Army Corps of Engineers to help rebuild Iraq, a contract for which spending authorization was recently increased from $100 million to a maximum of $500 million, subject to identification and award of specific contract task orders. We will continue to pursue additional opportunities in Iraq and Afghanistan, as well as construction and support projects at various domestic and overseas locations, including military bases, military installations and U.S. embassies.

Seek Complex Civil Construction Projects in the Northeast. We intend to maintain and build upon our established position as a leading civil construction contractor in the northeastern United States. However, we will do so selectively, with our business levels reflective of our risk tolerance, resource allocation, joint venture opportunities and targeted profit margins. As an example, during the nine months ended September 30, 2003, our revenues from civil construction declined to $134.5 million from $236.4 million during the same period in 2002. This decline in revenue occurred despite the fact that our overall bidding activity in the civil market during the periods remained relatively constant. Our reduced revenues were reflective of our unwillingness to bid work at unacceptable levels of profit or business risk in an unusually competitive bidding environment. We believe our opportunities and activity in winning civil work will increase as some competitors experience unacceptable profit margins and challenging construction conditions. Moreover, we believe there is a substantial and growing backlog of infrastructure replacement and repair needs in our principal markets that must be addressed in the near future. We will focus on large, complex public works projects in dense urban areas, particularly in the metropolitan New York area, where we are one of a limited number of construction firms that can consistently pre-qualify for these types of projects. We believe we have a competitive advantage on these projects as a result of our technical expertise, our significant local resources and our proven record of performance.

Focus on Margin Expansion Opportunities. We will actively seek to expand our profit margins by managing our business mix, targeting high value-added projects and continuously evaluating our corporate support and field operations cost structures. We anticipate that our business opportunities and revenues will grow more rapidly in our building and management services segments, as a result of both private and federal contracting opportunities. Additionally, in targeting our business development and bidding activity, we will emphasize large, complex projects that require innovative engineering, challenging logistics or completion schedules and construction capabilities where we have demonstrated expertise. These projects can generate and justify higher profit margins due to the higher value-added nature of our services. We will also seek to control our corporate overhead expenses and closely monitor field operations, with a view toward discontinuing unprofitable and unpromising operations. For example, in 1998 we closed unprofitable business units in the Midwest region after concluding that future business prospects did not justify the operating losses experienced by the units. As we pursue opportunities to expand our profit margins, we will remain attentive to our rigorous standards for quality, risk mitigation, market leadership and safety.

Pursue Selected Strategic Acquisitions. We intend to supplement our internal growth and achieve strategic benefits by pursuing selected acquisitions. In particular, we will seek profitable, well managed businesses with operations complementary to our building and management services activities. We believe that our recent acquisition of Cummings demonstrates our ability to successfully identify, execute and integrate strategic acquisitions.

Markets and Clients

Our construction services are targeted toward end markets that are diversified across project types, client characteristics and geographic locations. Revenues by business segment for the nine months ended September 30, 2003 and 2002 and for each of the three years ended December 31, 2002, 2001 and 2000 are set forth below:

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

	September 30,				
	2003	2002	2002	2001	2000
			(in thousands)		
Building	$ 629,305	$ 488,111	$ 631,860	$ 1,120,161	$ 740,555
Civil	134,507	236,409	312,528	353,957	279,469
Management Services	109,639	97,962	140,653	79,278	85,636
Total	$ 873,451	$ 822,482	$ 1,085,041	$ 1,553,396	$ 1,105,660

Table of Contents

Revenues by end market for the building segment for the nine months ended September 30, 2003 and 2002 and for each of the three years ended December 31, 2002, 2001 and 2000 are set forth below:

	Building Segment Revenues by End Market				
	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
			(in thousands)		
Hospitality and Gaming	$ 375,605	$ 406,188	$ 513,374	$ 1,013,206	$ 583,918
Sports and Entertainment	95,808	49,508	72,729	22,699	21,845
Education Facilities	72,256	103	1,181	8,460	6,197
Transportation Facilities	32,507	12,006	14,096	18,134	10,827
Healthcare Facilities	31,629	7,393	11,264	28,121	14,121
Other	21,500	12,913	19,216	29,541	103,647
Total	$ 629,305	$ 488,111	$ 631,860	$ 1,120,161	$ 740,555

Revenues by end market for the civil segment for the nine months ended September 30, 2003 and 2002 and for each of the three years ended December 31, 2002, 2001 and 2000 are set forth below:

	Civil Segment Revenues by End Market				
	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
			(in thousands)		
Highways	$ 48,935	$ 71,334	$ 92,486	$ 142,144	$ 135,565
Bridges	15,073	56,972	72,312	65,117	47,481
Mass Transit	65,781	88,176	145,160	146,397	87,930
Other	4,718	19,927	2,570	299	8,493
Total	$ 134,507	$ 236,409	$ 312,528	$ 353,957	$ 279,469

Revenues by end market for the management services segment for the nine months ended September 30, 2003 and 2002 and for each of the three years ended December 31, 2002, 2001 and 2000 are set forth below:

	Management Services Segment Revenues by End Market				
	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
			(in thousands)		
U.S. Government Services	$ 56,430	$ 32,306	$ 46,749	$ 37,348	$ 39,125
Power Facilities Maintenance	31,774	54,411	74,948	28,616	37,126
Other	21,435	11,245	18,956	13,314	9,385
Total	$ 109,639	$ 97,962	$ 140,653	$ 79,278	$ 85,636

We provide our services to a broad range of private and public clients. The allocation of our revenues by client source for the nine months ended September 30, 2003 and 2002 and for each of the three years ended December 31, 2002, 2001 and 2000 is set forth below:

	Revenues by Client Source				
	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
Private Owners	67%	66%	65%	73%	68%
State and Local Governments	26	30	30	24	28
Federal Governmental Agencies	7	4	5	3	4
Total	100%	100%	100%	100%	100%

Table of Contents

Private Owners. We derived approximately 67% of our revenues from private clients during the first nine months of 2003. Our private clients include major hospitality and gaming resort owners, Native American sovereign nations, private developers, healthcare and retirement companies and a leading owner and operator of power facilities. We provide services to our private clients primarily through negotiated contract arrangements, as opposed to competitive bids.

State and Local Governments. We derived approximately 26% of our revenues from state and local government clients during the first nine months of 2003. Our state and local government clients include state transportation departments, state and local correctional departments, metropolitan authorities, cities, municipal agencies, school districts and public universities. We provide services to our state and local clients primarily pursuant to contracts awarded through competitive bidding processes. Our civil contracting services are concentrated in the northeast, principally in the metropolitan New York and Boston markets. Our building construction services for state and local government clients, which have included schools and dormitories, correctional and healthcare facilities, parking structures and municipal buildings, are in locations throughout the country. Since our acquisition of Cummings in January 2003, we have been particularly active in providing construction services for local government clients in Florida.

Federal Government Agencies. We derived approximately 7% of our revenues from federal governmental agencies during the first nine months of 2003. These agencies have included the State Department, the U.S. Navy and the U.S. Army Corps of Engineers. We provide services to federal agencies primarily pursuant to contracts for specific or multi-year assignments that involve new construction or infrastructure improvements. A substantial portion of our revenues from federal agencies is derived from projects in overseas locations. Our share of revenues derived from federal customers has increased steadily in recent years. We expect this trend to continue for the foreseeable future as a result of our expanding base of experience and relationships with federal agencies, together with favorable market and expenditure trends for defense, security and reconstruction work.

Backlog

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

As of September 30, 2003, we had a construction backlog of $1.332 billion compared to $990 million at December 31, 2002, $1.214 billion at December 31, 2001 and compared to the record year-end backlog of $1.789 billion at December 31, 2000. Backlog is summarized below by business segment as of September 30, 2003 and December 31, 2002:

	Backlog by Business Segment			
	September 30, 2003		December 31, 2002	
	(dollars in thousands)			
Building	$ 749,450	56%	$ 525,433	53%
Civil	243,044	18	210,562	21
Management Services	339,654	26	254,180	26

Total	$ 1,332,148	100%	$ 990,175	100%

We estimate that approximately $364 million (or 27%) of our backlog at September 30, 2003 will not be completed during the next 12 months.

Table of Contents

Backlog by end market for the building segment as of September 30, 2003 and December 31, 2002 is set forth below:

	Building Segment Backlog by End Market			
	September 30, 2003		December 31, 2002	
	(dollars in thousands)			
Hospitality and Gaming	$ 393,593	53%	$ 341,115	65%
Sports and Entertainment	36,259	5	115,759	22
Education Facilities	135,251	18	13,805	3
Transportation Facilities	61,932	8	2,931	
Healthcare Facilities	47,477	6	42,504	8
Other	74,938	10	9,319	2
Total	$ 749,450	100%	$ 525,433	100%

Backlog by end market for the civil segment as of September 30, 2003 and December 31, 2002 is set forth below:

	Civil Segment Backlog by End Market			
	September 30, 2003		December 31, 2002	
	(dollars in thousands)			
Highways	$ 36,192	15%	$ 65,260	31%
Bridges	8,862	4	20,815	10
Mass Transit	73,435	30	106,473	51
Other	124,555	51	18,014	8
Total	$ 243,044	100%	$ 210,562	100%

Backlog by end market for the management services segment as of September 30, 2003 and December 31, 2002 is set forth below:

	Management Services Segment Backlog by End Market			
	September 30, 2003		December 31, 2002	
	(dollars in thousands)			
U.S. Government Services	$ 161,309	48%	$ 69,904	27%

Power Facilities Maintenance	170,258	50	175,032	69
Other	8,087	2	9,244	4
Total	$ 339,654	100%	$ 254,180	100%

Competition

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

Table of Contents

Types of Contracts and The Contract Process

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

Fixed price (FP) contracts, which include fixed unit price contracts, are generally used in competitively bid public civil construction projects and, to a lesser degree, building construction projects and generally commit the contractor to provide all of the resources required to complete a project for a fixed sum or at fixed unit prices. Usually FP contracts transfer more risk to the contractor but offer the opportunity, under favorable circumstances, for greater profits. FP contracts represent a significant portion of our publicly bid civil construction projects. Design-build projects are also generally performed under a FP contract.

Cost plus award fee (CPAF) contracts provide for reimbursement of the costs required to complete a project, but usually have a lower base fee and an incentive fee based on cost and/or schedule performance. CPAF contracts serve to minimize the contractor s financial risk, but may also limit profits.

Guaranteed maximum price (GMP) contracts provide for a cost plus fee arrangement up to a maximum agreed upon price. These contracts place risks on the contractor for amounts in excess of the GMP, but may permit an opportunity for greater profits than under CPAF contracts through sharing agreements with the owner on any cost savings that may be realized.

Construction management (CM) contracts are those under which a contractor agrees to manage a project for the owner for an agreed-upon fee, which may be fixed or may vary based upon negotiated factors. CM contracts serve to minimize the contractor s financial risk, but may also limit profit relative to the overall scope of a project.

Historically, a high percentage of our contracts have been of the fixed price and GMP type. A summary of revenues and backlog by type of contract for the nine-month period ended September 30, 2003 and for each of the three years in the period ended December 31, 2002 follows:

	Backlog as of			
	September 30,	**December 31,**		
	2003	**2002**	**2001**	**2000**
Fixed Price	30%	30%	41%	46%
CPAF, GMP or CM	70	70	59	54
	100%	100%	100%	100%

	Revenues			
	September 30,	**December 31,**		

	2003	2002	2001	2000
Fixed Price	25%	35%	25%	32%
CPAF, GMP or CM	75	65	75	68
	100%	100%	100%	100%

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

Table of Contents

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

The estimating process typically involves three phases. Initially, we perform a detailed review of the plans and specifications, summarize the various types of work involved and related estimated quantities, determine the project duration or schedule and highlight the unique and riskier aspects of the project. The second phase of the estimating process consists of estimating the cost and availability of labor, material, equipment, subcontractors and the project team required to complete the project on time and in accordance with the plans and specifications. The final phase consists of a detailed review of the estimate by management including, among other things, assumptions regarding cost, approach, means and methods, productivity and risk. After the final review of the cost estimate, management adds an amount for profit to arrive at the total bid amount.

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

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

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

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

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

Construction Costs

While our business may experience some adverse consequences if shortages develop or if prices for materials, labor or equipment increase significantly, provisions in certain types of contracts often shift all or a major portion of any adverse impact to the customer. On fixed price contracts, we attempt to insulate ourselves

43

Table of Contents

from the unfavorable effects of inflation by incorporating escalating wage and price assumptions, where appropriate, into our construction bids and by obtaining firm fixed price quotes from major subcontractors and material suppliers at the time of the bid. Construction and other materials used in our construction activities are generally available locally from multiple sources and have been in adequate supply during recent years. Construction work in selected overseas areas primarily employs expatriate and local labor which can usually be obtained as required.

Environmental Matters

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

In addition, some environmental laws, such as the U.S. federal Superfund law and similar state statutes, can impose liability for the entire cost of cleanup of contaminated sites upon any of the current or former owners or operators or upon parties who sent wastes to these sites, regardless of who owned the site at the time of the release or the lawfulness of the original disposal activity. Contaminants have been detected at some of the sites that we own, or where we worked as a contractor in the past, and we have incurred costs for investigation or remediation of hazardous substances. We also believe that our liability for these sites will not be material, either individually or in the aggregate, and have pollution legal liability insurance available for such matters. We believe that we have minimal exposure to environmental liability as a result of the activities of Perini Environmental Services, Inc., or Perini Environmental, a wholly owned subsidiary of Perini that was phased out during 1997. Perini Environmental provided hazardous waste engineering and construction services to both private clients and public agencies nationwide. Perini Environmental was responsible for compliance with applicable laws in connection with its activities; however, Perini and Perini Environmental generally carried insurance or received indemnification from customers to cover the risks associated with the remediation business.

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

Real Estate Operations

Effective June 30, 1999, management adopted a plan to withdraw completely from the real estate development business and to wind down the operations of Perini Land and Development Company, or PL&D, our wholly owned real estate development subsidiary. Accordingly, approximately 97% of the property has been liquidated since June 30, 1999. As of September 30, 2003, the remaining property consists of 92 buildable acres available for sale in the Raynham Woods Commerce Center, an industrial park located in Raynham, Massachusetts. This property is classified on the balance sheet as either Land held for sale, net or included in Other Assets. See Note 5 of Notes to Consolidated Financial Statements.

Insurance and Bonding

All of our properties and equipment, both directly owned or owned through joint ventures with others, are covered by insurance and management believes that such insurance is adequate. In addition, we maintain general liability, excess liability and workers compensation insurance in amounts that we believe are consistent with our risk of loss and industry practice. During 2000 and 2001, we were able to significantly limit our financial risk under our workers compensation and general liability insurance coverage by purchasing traditional insurance

44

Table of Contents

policies in a favorable insurance market. Due to tight conditions in the insurance market, effective for the calendar year 2002 and continuing into 2003, we found it necessary to purchase workers compensation and general liability policies at substantially higher premiums with a self-insured deductible limit of $250,000 per occurrence, with appropriate aggregate caps on losses retained.

As a normal part of the construction business, we are often required to provide various types of surety bonds as an additional level of security of our performance. We have surety arrangements with several sureties, one of which we have dealt with for over 75 years and another of which owns approximately 21% of our outstanding common stock. See Note 13 of Notes to Consolidated Financial Statements.

Employees

The total number of personnel employed by us is subject to seasonal fluctuations, the volume of construction in progress and the relative amount of work performed by subcontractors. During 2002, the average number of employees was approximately 3,200, with a maximum of approximately 4,800 and a minimum of approximately 1,800. As of September 30, 2003, the number of employees was approximately 3,400.

We operate as a union contractor. As such, we are a signatory to numerous local and regional collective bargaining agreements, both directly and through trade associations, throughout the country. These agreements cover all necessary union crafts and are subject to various renewal dates. Estimated amounts for wage escalation related to the expiration of union contracts are included in our bids on various projects and, as a result, the expiration of any union contract in the next fiscal year is not expected to have any material impact on us. As of September 30, 2003, approximately 2,600 of our employees were union employees. During the past several years, we have not experienced any work stoppages.

Properties

Properties used in our construction operations as of September 30, 2003 are summarized below:

	Business Segment(s)	Owned or Leased by Perini	Approximate Acres	Approximate Square Feet of Office Space
Principal Offices				
Framingham, MA	Building, Civil and Management Services	Owned	9	100,000
Phoenix, AZ	Building	Leased		22,700
Peekskill, NY	Civil	Owned	2	21,000
Ft. Lauderdale, FL	Building	Leased		17,500
Las Vegas, NV	Building	Leased		7,400
Celebration, FL	Building	Leased		4,800
Carlsbad, CA	Building	Leased		3,900
Detroit, MI	Building	Leased		2,500
			11	179,800

Principal Permanent Storage Yards			
Bow, NH	Civil	Owned	70
Framingham, MA	Building and Civil	Owned	6
Las Vegas, NV	Building	Leased	2
Peekskill, NY	Civil	Owned	3
			81

We believe our properties are well maintained, in good condition, adequate and suitable for our purpose and fully utilized. Properties for sale applicable to our previously discontinued real estate activities are described above in Real Estate Operations.

Table of Contents

Legal Proceedings

Mergentime Perini Joint Ventures vs. WMATA Matter

On May 11, 1990, contracts with two joint ventures in which Perini held a 40% interest were terminated by the Washington Metropolitan Area Transit Authority, or WMATA, on two subway construction projects in the District of Columbia. The contracts were awarded to the joint ventures in 1985 and 1986. However, Perini and Mergentime Corporation, or Mergentime, the 60% managing partner, entered into an agreement in 1987 under which Perini withdrew from the joint ventures and Mergentime assumed complete control over the performance of both projects. This agreement did not relieve Perini of its responsibilities to WMATA as a joint venture partner. After Perini withdrew from the joint ventures, Mergentime and WMATA had a dispute regarding progress on the projects. After both construction contracts were terminated, WMATA retained Perini, acting independently, to complete both projects.

Subsequently, the joint ventures brought an action in the United States District Court for the District of Columbia against WMATA, seeking damages for delays, unpaid extra work and wrongful termination and WMATA brought an action against the joint ventures seeking damages for additional costs to complete the projects. After a bench trial, the District Court found the joint ventures liable to WMATA for damages in the amount of approximately $16.5 million and WMATA liable to the joint ventures for damages in the amount of approximately $4.3 million.

The joint ventures appealed the judgment to the United States Court of Appeals for the District of Columbia, and on February 16, 1999, the Court of Appeals vacated the District Court s final judgment and ordered the District Court to review its prior findings and hold further hearings in regard to the joint venture s affirmative claims. In addition, the Court of Appeals held that statutory interest on any of the claims will not accrue until final judgment is entered sometime in the future.

On February 28, 2001, a successor District Court Judge informed the parties that he could not certify adequate familiarity with the record to complete the remaining proceedings; therefore, he granted the joint ventures motion for a new trial. The joint ventures are seeking $28.9 million, plus interest, from WMATA, and WMATA is seeking $29.3 million from the joint ventures. A new trial was completed in January 2002 and a decision is still pending. The ultimate financial impact of the Judge s pending decision is not yet determinable; therefore, no provision for loss, if any, has been recorded in the financial statements.

Tutor-Saliba-Perini Joint Venture vs. Los Angeles MTA Matter

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

Claims concerning the construction of the MTA projects were tried before a jury in 2001. During trial, the Judge ruled that TSP had failed to comply with the Court s prior discovery orders and the Judge penalized TSP, Tutor-Saliba and Perini for the alleged non-compliance by dismissing TSP s claims and by ruling, without a jury finding, that TSP, Tutor-Saliba and Perini were liable to the MTA for damages on the

MTA s counterclaims. The Judge then instructed the jury that TSP, Tutor-Saliba and Perini were liable to the MTA and charged the jury with the responsibility of determining the amount of the damages based on the Judge s ruling. The jury awarded the MTA approximately $29.6 million in damages.

Table of Contents

On March 26, 2002, the Judge amended the award, ordering TSP to pay the MTA an additional $33.4 million in costs and attorney fees, with the aggregate $63.0 million award subject to interest at an annual rate of 10% from the date of the award.

TSP and the other plaintiffs/defendants in the counterclaim have appealed the Judge s discovery sanction, the subsequent jury award and the amended award. Oral arguments on the appeal are anticipated to be set some time in Summer 2004. The ultimate financial impact of the Judge s ruling and/or the awards is not yet determinable. Therefore, no provision for loss, if any, has been recorded in the financial statements.

City of San Francisco vs. Tutor-Saliba, Perini & Buckley Joint Venture Matter

In November 2002, the San Francisco City Attorney, on behalf of the City and County of San Francisco and the citizens of California, filed a civil action with a demand for a jury trial against Perini, Tutor-Saliba Corporation, or TSC, the Tutor-Saliba, Perini & Buckley Joint Venture, Buckley & Company, Inc. and their bonding companies in the United States District Court in San Francisco relating to seven projects for work on the expansion of the San Francisco International Airport. A second amended complaint was filed in July 2003 which, among other things, added Ronald N. Tutor as a defendant. The joint venture was established by TSC, Perini and Buckley through two joint venture agreements dated October 28, 1996 and February 11, 1997. The joint venture had agreements with the Owner to perform work (Contracts) on only two of the above projects (Projects) and, as part of those Contracts, the joint venture provided performance and payment bonds to the Owner (Bonds).

In the second amended complaint, the plaintiffs allege, among other things, various overcharges, bidding violations, violations of minority contracting regulations, civil fraud and violation of the California and San Francisco False Claims and California Unfair Competition Acts. In addition, the plaintiffs allege that the defendants have violated the United States Racketeer Influenced Corrupt Organizations Act. The plaintiffs have asserted $30 million in damages and are seeking treble damages, punitive and exemplary damages, various civil penalties and a declaration that TSC and the joint venture are irresponsible bidders. It is unclear based on the plaintiff s current complaint what portion of the plaintiff s claims relate to the two projects that the joint venture participated in.

On October 3, 2003, the Court granted the defendants motion to specify damages allegedly sustained for each contract. The defendants motion to dismiss the plaintiff s second amended complaint is pending.

TSC is the managing partner of the joint venture and, in December 1997, Perini sold its entire 20% interest in the joint venture to TSC. As part of that sale agreement, TSC agreed to indemnify Perini from any liability that Perini is required to pay by reason of or arising out of any event or occurrence subsequent to the date of the sale of Perini s interest in the joint venture in any way connected with the joint venture agreements, the Contracts, the Projects and the Bonds. It is unclear based on the plaintiff s current complaint whether the claims against the joint venture arise out of events that occurred subsequent to the date of the sale of Perini s interest. The ultimate financial impact of this action is not yet determinable.

Perini/Kiewit/Cashman Joint Venture Central Artery/Tunnel Project Matter

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

Table of Contents

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

The DRB has also ruled on a binding basis that PKC is entitled to additional compensation awards totaling $17.1 million for impacts and inefficiencies caused by MHD to certain of PKC s work. PKC has filed applications in these actions seeking to confirm the awards and MHD has filed civil actions in Massachusetts Superior Court seeking to vacate these awards.

Under the Dispute Resolution Rules of the contract, either party may periodically terminate the services of some or all of the DRB members provided that members who are removed under this provision will remain on the DRB through the completion of any then pending claims. The MHD has chosen to remove the current DRB members under this provision and those members are in the process of completing hearings on all pending claims. Although the replacement DRB members have been agreed upon, proceedings before the current DRB and the new DRB have been postponed pending completion of the negotiation and mediation discussed below.

The pending claims yet to be decided by the current DRB on a binding basis have an anticipated value of $49.4 million. The remaining claims to be decided by the replacement DRB on a non-binding basis have an anticipated value of $72.6 million.

On August 14, 2002 the Massachusetts Attorney General s office, pursuant to its authority under the Massachusetts False Claims Act, served a Civil Investigative Demand (CID) on Perini and the other joint venture partners. The CID sought the production of certain construction claims documentation in connection with the Central Artery/Tunnel Contract No. C11A1. PKC vigorously denies that it submitted any false claims and is cooperating with the Attorney General s Office in the ongoing investigation.

In December 2002, PKC and MHD entered into an agreement to attempt to resolve by negotiation and mediation all of the outstanding claims on the project. As part of the agreement, the MHD recommended for approval by the Massachusetts Turnpike Authority a contract modification that provides for provisional payments to PKC totaling $25 million against PKC s outstanding claims. To date, PKC has received $23.75 million of those provisional payments. The parties also agreed to stay the pending litigation and DRB proceedings during the negotiations. Perini began mediation on all claims in September 2003. The ultimate financial impact of resolving all of the claims on this project is not yet determinable.

Redondo/Perini Joint Venture vs. Siemens Transportation Matter

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

On March 19, 2002, Redondo filed a petition for reorganization under 11 U.S.C. Chapter 11 in U.S. Bankruptcy Court for the District of Puerto Rico.

On December 23, 2002, RPJV filed an arbitration demand against STP seeking the recovery of approximately $38 million of additional costs related to design changes and the late completion of the design. On January 31, 2003, STP filed a counter-demand against RPJV seeking the recovery of damages allegedly related to defects in design and construction and the late completion of RPJV s work in the amount of approximately $17.9 million along with the repayment of approximately $22.6 million for alleged advances previously paid to RPJV.

Table of Contents

On October 31, 2003, the parties each revised their statement of damages. RPJV s total claim is now approximately $71 million. STP s revised claim is approximately $69.5 million, including its claim for alleged advances already paid.

Discovery has begun, an arbitration panel has been chosen and arbitration evidentiary hearings are scheduled to begin on February 23, 2004. The ultimate financial impact of resolving all of the claims on this project is not yet determinable.

$21.25 Preferred Shareholders Class Action Lawsuit

On October 15, 2002, Frederick Doppelt, Arthur I. Caplan and Leland D. Zulch filed a lawsuit individually, and as representatives of a class of holders of our Depositary Shares against certain current and former directors of Perini. This lawsuit is captioned Doppelt, et al. v. Tutor, et al., United States District Court for the District of Massachusetts, No. 02CV12010MLW. Mr. Doppelt is a current director of Perini and Mr. Caplan is a former director of Perini.

Specifically, the original complaint alleged that the defendants breached their fiduciary duties owed to the holders of the Depositary Shares and to Perini. The plaintiffs principally allege that the defendants improperly authorized the exchange of Series B Preferred Stock for common stock while simultaneously refusing to pay accrued dividends due on the Depositary Shares.

On January 6, 2003, the defendants moved to dismiss the lawsuit. Among other things, the defendants argued that: (1) they did not owe fiduciary duties to the holders of the Depositary Shares and (2) the claims of breach of fiduciary duty owed to Perini must be dismissed because the claim could only be brought as a derivative action.

On March 21, 2003, the plaintiffs filed an opposition to the motion to dismiss and in May 2003 the plaintiffs asked the Court for leave to file an amended complaint.

In June 2003 the plaintiffs were given leave to file an amended complaint. The amended complaint filed in July 2003 adds an allegation that the defendants have further breached their fiduciary duties by authorizing a tender offer for the purchase of up to 90% of the Depositary Shares and an allegation that the collective actions of the defendants constitute unfair and deceptive business practices under the provisions of the Massachusetts Consumer Protection Act. The amended complaint withdrew the allegation of a breach of fiduciary duty owed to Perini, but retained the allegation with respect to a breach of those duties owed to the holders of the Depositary Shares. The plaintiffs seek damages in an amount not less than $15,937,500, trebled, plus interest, costs, fees and other unspecified punitive and exemplary damages.

On August 29, 2003, the defendants filed a motion to dismiss the amended complaint. The plaintiffs filed an opposition thereto and on October 14, 2003, the defendants filed their reply.

In 2001, a similar lawsuit was filed by some of the same plaintiffs in the United States District Court for the Southern District of New York, which claimed that we breached our contract with the holders of Depositary Shares. In 2002, the case was dismissed and upon appeal by the plaintiffs to the United States Court of Appeals for the Second Circuit, the Court of Appeals affirmed the dismissal.

Table of Contents

MANAGEMENT

The following table shows information about our executive officers and directors as of December 15, 2003:

Name	Age	Position
Ronald N. Tutor	62	Chairman, Chief Executive Officer and Director (Class II)
Robert Band	56	President, Chief Operating Officer and Director (Class I)
Michael E. Ciskey	53	Vice President, Chief Financial Officer
Zohrab B. Marashlian	59	President, Perini Civil Construction, a division of Perini
Craig W. Shaw	49	President, Perini Building Company, Inc., a wholly owned subsidiary of Perini
Peter Arkley	49	Director (Class III)
Wayne L. Berman	46	Director (Class I)
James A. Cummings	58	Director (Class III)
Frederick Doppelt	84	Director
Asher B. Edelman	63	Director
Robert A. Kennedy	67	Director (Class II)
Michael R. Klein	61	Director (Class I)
Raymond R. Oneglia	55	Director (Class III)

Ronald N. Tutor has served as our Chief Executive Officer since March 2000 and as one of our directors since January 1997. He has also served as our Chairman since July 1999. He previously served as our Vice Chairman from January 1998 to July 1999, and Chief Operating Officer from January 1997 until March 2000 when he became Chief Executive Officer. Mr. Tutor also serves as chairman, president and chief executive officer of Tutor-Saliba Corporation, a California corporation engaged in the construction industry.

Robert Band has served as a director since May 1999. He has also served as Chief Operating Officer since March 2000 and as President since May 1999. He previously served as Chief Executive Officer from May 1999 until March 2000, Executive Vice President and Chief Financial Officer from December 1997 until May 1999 and President of Perini Management Services, Inc. since January 1996.

Michael E. Ciskey has served as Chief Financial Officer since November 2003 and as Vice President since May 1984. He previously served as Corporate Controller from April 1999 until November 2003, Operations Controller from May 1998 until April 1999 and as Division Controller for various Perini civil construction business units from 1984 until 1998.

Zohrab B. Marashlian has served as President of Perini Civil Construction, a division of Perini that is responsible for Perini s civil construction operations, since December 1997. From April 1995 until December 1997, he served as President of Perini s Metropolitan New York Division.

Craig W. Shaw has served as President of Perini Building Company, a wholly owned subsidiary of Perini that is responsible for Perini s building construction operations, since October 1999. From April 1995 until October 1999, he served as President of Perini Building Company, Western U.S. Division.

Peter Arkley has served as a director since May 2000. He has served as Western Regional Managing Director of AON Risk Services, Inc., an insurance and bonding brokerage firm, since January 1996.

Wayne L. Berman has served as a director since March 2002. He has served as founder and chief executive officer of Berman Enterprises, Inc., a business development consultancy company since January 1993.

James A. Cummings has served as a director since March 2003. He has served as Chairman and Chief Executive Officer of James A. Cummings, Inc. since 2001. He previously served as President of Cummings from 1981 until 2001.

Table of Contents

Frederick Doppelt has served as a director since May 1998. He has been a self-employed attorney specializing in trust and estate matters since 1983.

Asher B. Edelman has served as a director since May 2001. Mr. Edelman has served as general partner of Asco Partners, a general partner of Edelman Securities Company L.P. (formerly Arbitrage Securities Company) since June 1984 and is a General Partner and Manager of various investment partnerships and funds. Mr. Edelman also serves as chairman of the board of directors of Canal Capital Corporation, a company engaged in the management and development of agri-business related real estate properties and chairman of the board of directors of Cattle Sale Company, formerly Dynacore Holdings Corp., a provider of auction trading services to beef and dairy producers. On May 3, 2000, while Mr. Edelman was chairman of the board of directors, Dynacore Holdings Corporation filed for bankruptcy pursuant to Chapter 11 of the United States Bankruptcy Code. Dynacore Holdings Corp. emerged from bankruptcy in December 2000. In addition, Mr. Edelman was a member of a member-managed limited liability company that was a general partner in each of the following two partnerships that declared bankruptcy pursuant to Chapter 11 of the United States Bankruptcy Code: Papier I Partners, L.P. and Papier II Partners, L.P.

Robert A. Kennedy has served as a director since March 2000. From 1994 to 2003, Mr. Kennedy served in various capacities for The Union Labor Life Insurance Company, a provider of insurance and certain financial services to its union members and related trust funds, including as Vice President of Special Projects from 2001 to 2003. Mr. Kennedy currently serves as a consultant to The Union Labor Life Insurance Company.

Michael R. Klein has served as a director since January 1997 and as Vice Chairman of our Board since September 2000. Mr. Klein has been a partner of the law firm of Wilmer, Cutler & Pickering since 1974. Mr. Klein also serves as chairman of the board of directors of CoStar Group, Inc., a provider of commercial real estate information, and as a director of SRA International, Inc., a provider of technology services and solutions to the United States federal government organizations.

Raymond R. Oneglia has served as a director since March 2000. He has also served as vice chairman of the board of directors of O&G Industries, Inc., a Connecticut corporation engaged in the construction industry, since 1997 and has served in various operating and administrative capacities since 1970.

Information Regarding our Board of Directors

Our affairs are managed under the direction of our Board of Directors. Our Directors serve until their successors are duly elected and qualified or until their earlier resignation, removal or disqualification. There are no family relationships between our directors and executive officers. For certain relationships between Perini and our directors see Certain Transactions. The Board of Directors met four times during 2002. Our Board of Directors is divided into three approximately equal classes, each of whose members will serve for a staggered three-year term. Our Board of Directors consists of Mr. Band, Mr. Berman and Mr. Klein as Class I directors, whose term of office will continue until the 2006 annual meeting of stockholders, Mr. Kennedy and Mr. Tutor as Class II directors, whose term of office will continue until the 2004 annual meeting of stockholders, and Mr. Arkley, Mr. Cummings and Mr. Oneglia as Class III directors, whose term of office will continue until the 2005 annual meeting of stockholders.

The holders of the $21.25 Preferred Stock have the right to elect, voting as a separate class, two directors in the event that dividends on the $21.25 Preferred Stock are in arrears for at least six quarters. We have not paid any dividends on the $21.25 Preferred Stock since 1995. Mr. Edelman and Mr. Doppelt have been elected by the holders of the $21.25 Preferred Stock to serve as directors of Perini, and their terms will continue until the 2004 annual meeting of stockholders.

During 2002 all of our Directors attended at least 75% of the meetings of our Board of Directors and committees of which they are members, except for Peter Arkley who attended approximately 38% of such meetings.

Committees of Our Board of Directors

Audit Committee

Our Board of Directors has an Audit Committee, which consists of Raymond R. Oneglia, Michael R. Klein and Robert A. Kennedy. We believe that each of the members of the Audit Committee is independent under the rules of the American Stock Exchange. The Audit Committee met nine times during 2002 and is required to have at least four regular meetings each year. The primary duties and responsibilities of the Audit Committee are to oversee that management:

- maintains the integrity of our internal controls, financial systems and financial statements;
- maintains compliance with legal and regulatory requirements and our Business Conduct Policy; and
- monitors the independence and performance of both our internal and external auditors.

Compensation Committee

Our Board of Directors has a Compensation Committee, which consists of Raymond R. Oneglia, Michael R. Klein and Peter Arkley. The duties of the Compensation Committee are summarized in The Compensation Committee Report on pages 52 through 54 herein. The Compensation Committee met four times during 2002 and is required to have at least two regular meetings each year.

Nominating Committee

Our Board of Directors has a Nominating Committee, which consists of Raymond R. Oneglia, Michael R. Klein and Ronald N. Tutor. The duties of the Nominating Committee include identifying individuals qualified to become directors and recommending to the Board the persons to be nominated for election as directors at the annual meeting of stockholders.

Directors Compensation

During 2002, fees for our outside directors consisted of an annual retainer fee of $25,000, plus $900 per Board meeting attended, as well as $900 per Committee meeting attended by members of the Audit, Compensation and Nominating Committees. Mr. Ronald N. Tutor, our Chairman since July 1, 1999 and our Chairman and Chief Executive Officer since March 29, 2000, has opted to receive no director fees since he is party to a Management Agreement described in Certain Transactions below.

On September 10, 2003, the directors fees were reviewed and the following changes made: The Chair of the Audit Committee will receive an additional annual retainer fee of $10,000 and each member will receive a per meeting fee of $2,000 for meetings attended in person and $500 for meetings attended telephonically. In addition, the per meeting fee of $900 for attendance at meetings of the Board of Directors, Compensation and Nominating Committees was reduced to $300 for members that attend telephonically.

Director and Officer Indemnification

Our charter provides that no director shall be personally liable to us or to our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for any breach of the director s duty of loyalty to us or our stockholders, for acts or omissions not in good faith, for acts or omissions involving intentional misconduct or a knowing violation of law or for any transaction from which the director derived an improper personal benefit. Our bylaws provide that our directors and officers will be indemnified against liabilities that arise from their service as directors and officers, subject to certain exceptions. We have entered into agreements with our directors and officers that also provide for such indemnification and expenses and liability reimbursement. We have obtained insurance which insures our directors and officers against certain losses and which insures us against our obligations to indemnify our directors and officers.

Table of Contents

Tutor-Saliba Management Agreement

In January 1997 we entered into a management agreement with Tutor-Saliba and Ronald N. Tutor, chief executive officer and sole stockholder of Tutor-Saliba, pursuant to which Mr. Tutor provides us with certain management services. This agreement is described under Certain Transactions Tutor-Saliba Management Agreement.

Employment Agreement with James A. Cummings

Mr. Cummings, a director of Perini, serves as chief executive officer of Cummings pursuant to an employment agreement dated January 21, 2003. The employment agreement has a five-year term, subject to termination by notice. The employment agreement provides for an initial base salary of $250,000 through May 31, 2004 with the opportunity to earn an annual bonus of 100% of base salary if certain performance goals are met by Cummings. Under the employment agreement, Mr. Cummings is entitled to participate in any compensation, benefit and insurance programs maintained by us in which our senior executives are eligible to participate and certain other benefits, including reimbursement for automobile leases, general contracting license fees and any continuing education fees to maintain such license and certain reimbursements for country club dues.

If Mr. Cummings employment is terminated by Cummings without cause or Mr. Cummings terminates his employment with Cummings for cause (as such term is defined in the employment agreement), then Mr. Cummings is entitled to receive his base salary until the earlier of (i) one year from the date of termination or (ii) the expiration of the employment agreement, subject to certain limitations, a pro rata portion of his annual bonus and approximately $727,000 as payment for amounts otherwise due to Mr. Cummings in January 2008 under the purchase agreement pursuant to which we acquired Cummings. The agreement contains confidentiality and noncompetition provisions applicable to Mr. Cummings that are customary for an agreement of this type.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee. None of the current members of our Compensation Committee has ever been an employee of Perini.

Executive Officers

Each officer serves at the discretion of our Board of Directors and holds office until his or her successor is elected and qualified or until his or her earlier resignation or removal.

The Compensation Committee Report

During 2002, the Compensation Committee of our Board of Directors consisted of three Directors, none of whom is an employee or an officer of Perini. The principal powers and duties of the Compensation Committee as established by the Board of Directors are:

1. To review the Executive Compensation programs and policies and to employ outside expert assistance, if required, to analyze our compensation practices to assure that they are consistent with corporate goals and objectives, and competitive with those of comparable firms in the construction industry;

2. To recommend to the Board of Directors for its approval the base compensation of our Chairman and Chief Executive Officer and to review and approve the salary recommendations of our Chairman and Chief Executive Officer with respect to other members of top management;

3. To recommend to the Board of Directors annual profit and other targets for Perini for the purpose of determining incentive compensation awards under the provisions of the Amended and Restated General and Construction Business Unit Incentive Compensation Plans, or the Incentive Compensation Plan; and

4. To administer the Incentive Compensation Plan; such administration includes power to (i) approve Participants participation in the plan, (ii) establish performance goals, (iii) determine if and when any bonuses shall be paid, (iv) pay out any bonuses, in cash or stock or a combination thereof, as the Committee shall determine from year to year, (v) construe and interpret the Incentive Compensation Plan, and (vi) establish rules and regulations and perform all other acts it believes reasonable and proper.

Compensation Policy

The Compensation Committee strives to maintain corporate base salaries and the total compensation package appropriate to attract and retain highly qualified executives. This results in base salaries that generally are at the median range of those of other construction companies but allows executives to substantially exceed the median compensation levels when incentive compensation is earned. While recognizing that it may be difficult to find other companies with the same mix of business as Perini, the Committee, nevertheless, believes that a comparison with other construction companies is appropriate.

The compensation program for executive officers is composed of three elements: base salaries, annual incentive bonuses and long-term incentive stock awards. These elements of compensation are designed to provide incentives to achieve both short-term and long-term objectives and to reward exceptional performance. Salaries and annual incentive compensation bonuses result in payment for performance and are tied to the achievement of profit and/or cash flow targets. The value of the incentive stock awards depends upon the appreciation in market value of our common stock.

Executive Salary Increases in 2002

Although certain members of top management designated as Named Executive Officers in the Summary Compensation Table on page 55 did not receive salary increases in 2001, they did receive salary increases at the beginning of 2002 that ranged from 15% to 32%. Other senior officers received salary increases in March 2002 that ranged from approximately 3 $^{1}/2$% to 5 $^{1}/2$%.

Section 162 (m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to public companies for compensation over $1,000,000 paid to our Chief Executive Officer and four other most highly compensated executive officers. The Compensation Committee has not established any policy regarding annual compensation to such executive officers in excess of $1,000,000. However, to date, none of our officers has received compensation in excess of $1,000,000 for any annual period.

Compensation of the Chairman and Chief Executive Officer

Our Chairman and Chief Executive Officer, Ronald N. Tutor, is generally compensated for his services under a management services contract between Perini and Tutor-Saliba Corporation, a company in which Mr. Tutor is the chief executive officer and sole stockholder, at an annual rate of $250,000, which represented the same annual rate as 2001. In addition, Mr. Tutor was awarded $231,000 in incentive compensation for 2002.

The Perini Incentive Compensation Plan

The Incentive Compensation Plan is an integral part of the total compensation package of the Chairman and Chief Executive Officer, as well as the six executives whose salaries were reviewed by the Compensation Committee in 2002 and approximately 55 other employees. Eligibility and designated levels of participation are determined by the Chairman and Chief Executive Officer subject to Compensation Committee approval. Eligibility to participate under the Incentive Compensation Plan is limited to individuals who are executives, managers and key employees of Perini and our wholly owned subsidiaries, whose duties and responsibilities provide them the opportunity to (i) make a material and significant impact to our financial performance; (ii) have major responsibility in the control of the corporate assets; and (iii) provide critical staff support necessary to enhance operating profitability.

Table of Contents

Under the terms of the Incentive Compensation Plan, participants can achieve incentive compensation awards ranging from zero to as much as 100% of base salary, which depends on the achievement of certain corporate goals, as defined. In addition, the Committee has the authority, when appropriate, to make certain discretionary incentive compensation awards. The mechanisms of the Incentive Compensation Plan are expressed in terms of levels of participation, points deriving therefrom calculated on base salary, and achievement of our net income target for the year.

No sums attributed to a participant in the Incentive Compensation Plan become vested until the Compensation Committee approves the payment, usually in March following the year earned. At the discretion of the Committee, payment can be made in cash, stock or a combination of cash and stock.

In 2003, the Committee authorized the payment of $3,912,000 of incentive compensation payments for 2002 operations, to 62 participants. Payment of incentive compensation awards for 2002 performance were paid 100% in cash.

COMPENSATION COMMITTEE
Raymond R. Oneglia, Chair
Peter Arkley
Michael R. Klein

55

Table of Contents

Executive Compensation and Other Information

Summary of Cash and Certain Other Compensation

The following table sets forth the cash compensation paid by us and our subsidiaries, as well as certain other compensation paid or accrued for those years, to our Chief Executive Officer and each of our three other most highly compensated Executive Officers whose salary and bonus exceeded $100,000 (the Named Executive Officers) for the years ended December 31, 2002, 2001 and 2000, or for each year in which a Named Executive Officer served as such.

Summary Compensation Table

					Long-Term Compensation		
					Awards	Payouts	
	Annual Compensation				Number of Securities Underlying Options	Long-Term Performance Units	All Other
Name and Principal Position	Year	Salary	Bonus	Other (1),(2)	Granted	Payout	Compensation (3)
Ronald N. Tutor Chairman and Chief Executive Officer	2002	$	$ 231,000	$ 250,000		$	$
	2001		250,000	250,000			
	2000			250,000	1,000,000		
Robert Band President and Chief Operating Officer	2002	375,000	346,000				2,800
	2001	285,000	385,000				200
	2000	284,500	284,500		200,000		1,200
Zohrab B. Marashlian President, Perini Civil Construction	2002	375,000	325,000				2,800
	2001	325,000	425,000				200
	2000	323,600	323,600		400,000		1,300
Craig W. Shaw President, Perini	2002	375,000	348,000				2,800
	2001	325,000	425,000				200
	2000	323,600	385,500		400,000		1,300

Building Company, Inc.

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(1) Other annual compensation does not include a dollar amount which we are unable to quantify, but which is estimated at not more than the lesser of $50,000 or 10% of the salary and bonus reported for each Named Executive Officer, resulting from executive perquisites which may be of personal benefit to such individuals.

(2) Represents a management services fee paid to Tutor-Saliba Corporation of which Mr. Tutor is the chief executive officer and sole stockholder. See Certain Transactions Tutor-Saliba Management Agreement.

(3) All Other Compensation primarily represents estimated annual Perini 401(k) retirement contributions for each of the Named Executive Officers, except for Mr. Tutor.

Table of Contents

Equity Compensation Plans

The following table sets forth certain summary information with respect to stock options granted and available for future grants under equity compensation plans approved and not approved by our stockholders as of December 31, 2002:

Equity Compensation Plan Information

Plan category	Shares of Common Stock to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Shares of Common Stock remaining available for future issuance under equity compensation plans (excluding shares of Common Stock reflected in column (a))
	(a)	(b)	(c)
Equity Compensation Plans:			
Approved by Stockholders -			
Special Equity Incentive Plan*	2,733,034	$ 4.50	187,300
1982 Stock Option Plan*	67,500	5.29	
Not approved by Stockholders -			
Options Granted to Certain Directors and Executive Officers*	435,000	7.92	
Total	3,235,534	$ 4.98	187,300

* For detailed information concerning our equity compensation plans, see Note 9 entitled Stock Options of Notes to Consolidated Financial Statements.

Special Equity Incentive Plan - On May 25, 2000, our stockholders approved our Special Equity Incentive Plan. The aggregate number of shares of common stock that may be subject to outstanding options under the plan is 3,000,000 shares. As of September 30, 2003, options to purchase a total of 2,812,700 shares of common stock have been granted, options to purchase 258,066 shares of common stock have been exercised and 195,634 shares remain available for future grants under this plan.

Under the plan we are authorized to grant non-qualified stock options to our key executives, employees and directors. Options granted under the plan may not be granted at less than 100% of the fair market value of a share of common stock as of the date of grant and must be exercised within ten years of the date of grant.

The plan is administered by the Compensation Committee or other committee designated by the Board of Directors (the Plan Administrator). Subject to the provisions of the plan, the Plan Administrator has the authority to select the persons to whom options are granted and determine the terms of each option, including the number of options to be granted and the vesting schedule of each option. Unless otherwise permitted by us, options are not assignable or transferable except by will or the laws of descent and distribution.

The Plan Administrator may, in its sole discretion, amend, modify, or terminate any option granted or made under the plan, so long as such amendment, modification or termination would not materially and adversely affect the participant. The Plan Administrator may also, in its sole discretion, accelerate or extend the date or dates on which all or any particular option or options granted under the plan may be exercised.

1982 Stock Option Plan - During 2002, the provisions of the 1982 Stock Option Plan expired. Therefore, the only shares of our authorized, but unissued, common stock still reserved under this plan are the 67,500 shares applicable to the remaining outstanding options.

Table of Contents

Option Exercises and Holdings

The following table sets forth information with respect to our Named Executive Officers concerning the exercise of options during the year ended December 31, 2002 and unexercised options held as of December 31, 2002:

Aggregated Option Exercises in the Last Fiscal Year

and Fiscal Year-End Option Values

			Number of Unexercised Options at December 31, 2002		Value of Unexercised In-the-Money Options at December 31, 2002	
Name	**Number of Securities Underlying Shares Acquired on Exercise**	**Value Realized**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Ronald N. Tutor		$	1,225,000		$	$
Robert Band			237,500			
Zohrab B. Marashlian			475,000			
Craig W. Shaw			475,000			

There were no stock options or Stock Appreciation Rights granted to any of the Named Executive Officers during the year ended December 31, 2002.

Incentive Compensation Plans

We have an incentive compensation plan for certain employees at the corporate level (The Perini Corporation Amended and Restated (1997) General Incentive Compensation Plan), or corporate plan, and an incentive compensation plan for certain employees at the business unit level (The Perini Corporation Amended and Restated Construction Business Unit Incentive Compensation Plan), or business unit plan. Under these plans, eligibility and designated levels of participation are determined by our Chief Executive Officer subject to Compensation Committee approval. Eligibility to participate under the corporate plan is limited to individuals who are executives, managers and key employees at the corporate level and eligibility to participate under the business unit plan is limited to individuals who are managers and key employees at our construction business unit level.

Under the terms of the plans, participants can receive incentive compensation awards ranging from zero to as much as 100% of base salary. Awards are based on established corporate goals, levels of achievement of these goals and the base salaries and individual bonus limits assigned to the participants. In addition, the actual incentive compensation amounts available to participants at a business unit are based on the level of achievement of the corporate goal applied to the profit generated by that business unit. No amounts attributed to a participant in the plans become vested until the Compensation Committee approves the payment, usually in March following the year earned. At the discretion of the

Compensation Committee, payment can be made in cash, stock or a combination of cash and stock. Incentive compensation for the Named Executive Officers is included in the Summary Compensation Table under the Bonus column.

401(k) Plan

We have a tax-qualified Section 401(k) Retirement Plan covering all of our executive, professional, administrative and clerical employees who are over 21 years of age and who have completed three months of service with us. Under the 401(k) plan, participants may elect to defer a portion of their compensation on a pre-tax basis and have it contributed to the plan. In addition, we make employer contributions into the 401(k) plan based on a non-discretionary match of employees contributions, as defined, since 2002. Prior to 2002, our contribution to the 401(k) plan was based on a specified level of profits, subject to certain limitations, as well as approval by our Board of Directors of any discretionary contributions.

Table of Contents

Pension Plan Disclosure

The following table sets forth pension benefits payable based on an employee s remuneration (final average earnings) and years of service as defined under our non-contributory Retirement Plan for all its full-time employees, and to the extent covered remuneration is limited by the Internal Revenue Code of 1986, as amended, pension benefits payable have been augmented based on our Benefit Equalization Plan:

Pension Plan Table

	Estimated Annual Pension Benefits (2) for Years of Service Indicated (3)				
Remuneration (1)	**15 Years**	**20 Years**	**25 Years**	**30 Years**	**35 Years**
$ 125,000	$ 23,688	$ 31,583	$ 39,479	$ 39,479	$ 39,479
150,000	29,313	39,083	48,854	48,854	48,854
175,000	34,938	46,583	58,229	58,229	58,229
200,000	40,563	54,083	67,604	67,604	67,604
225,000	46,188	61,583	76,979	76,979	76,979
250,000	51,813	69,083	86,354	86,354	86,354
300,000	63,063	84,083	105,104	105,104	105,104
400,000	85,563	114,083	142,604	142,604	142,604
500,000	108,063	144,083	180,104	180,104	180,104

(1) Remuneration covered by the plan and the Benefit Equalization Plan is limited to an employee s annual salary and for the Named Executive Officers is limited to the amounts in the Annual Salary column included in the Summary Compensation Table on page 56.

(2) The estimated annual benefits are calculated on a straight-line annuity basis and are not subject to any further deductions for Social Security since the Plan formula integrates the calculation of the benefits with certain adjustments for Social Security, as defined.

(3) The estimated credited years of service for our Named Executive Officers are as follows: R. Band (29 years), Z.B. Marashlian (30 years) and C.W. Shaw (24 years).

Table of Contents

CERTAIN TRANSACTIONS

We believe that the transactions described below were on terms that were at least as favorable to us as we would have expected to negotiate with other unaffiliated third parties at the point in time these respective transactions were consummated.

Tutor-Saliba Management Agreement

As a condition to a new investor group s acquisition of shares of our Series B Preferred Stock for an aggregate of $30 million, which was approved by our stockholders on January 1997, we entered into a management agreement with Tutor-Saliba, a California corporation engaged in the construction industry, and Ronald N. Tutor, chief executive officer and sole stockholder of Tutor-Saliba, to provide certain management services. The management agreement has been renewed annually by our Compensation Committee, which consists entirely of independent directors, under the same basic terms and conditions as the initial agreement except that the amount of the fee payable thereunder by us to Tutor-Saliba was increased effective January 1, 2000, from $150,000 to $250,000 per year and effective January 1, 2004, from $250,000 to $375,000 per year. Effective December 31, 2001, Mr. Tutor will be included as a participant in our incentive compensation plan. Tutor-Saliba initially held 351,318 shares of our common stock before Tutor-Saliba s additional investment in our common stock effective March 29, 2000. Since January 17, 1997, Mr. Tutor has been a member of our Board of Directors and an officer of Perini and effective July 1, 1999 was elected Chairman of our Board of Directors and effective March 29, 2000 was elected Chairman and Chief Executive Officer.

Compensation for the management services consists of payments to Tutor-Saliba under the management agreement described above, options granted to Mr. Tutor and incentive compensation awarded to Mr. Tutor as a participant in our incentive compensation plan. See Management Summary Compensation Table. All of the stock options granted to Mr. Tutor were granted at or above fair market value on the date of grant, are currently exercisable and are otherwise summarized below:

Grant Date	Option Price Per Share	Number of Shares	Expiration Date
01-17-97	$8.3750	150,000	01-16-05
12-10-98	$5.2875	45,000	12-09-06
01-04-99	$5.1250	30,000	01-03-07
03-29-00	$4.5000	1,000,000	03-28-10

Series B Preferred Stock Exchange

Effective March 29, 2000, a new investor group led by Tutor-Saliba, and including O&G Industries, Inc., or O&G, and National Union Fire Insurance Company of Pittsburgh, Pa., or National Union, a wholly owned subsidiary of American International Group, Inc., or AIG, collectively purchased 9,411,765 shares of our common stock, hereafter referred to as the Purchase Shares, for $40 million, or $4.25 per share, in what we refer to herein as the Transaction. Each of Tutor-Saliba, O&G and National Union are referred to herein individually as a Purchaser, and collectively as the Purchasers. In connection therewith, we exchanged 7,490,417 shares of common stock for all of the outstanding shares of Series B Preferred Stock at an exchange price of $5.50 per share of common stock, hereafter referred to as the Exchange. See Principal and Selling Stockholders.

Prior to the Transaction, the Board of Directors formed a Special Committee, comprised of three independent directors, to review a financing proposal from Mr. Tutor and to actively solicit and negotiate alternative proposals from third parties. The Special Committee recommended the Transaction to the Board of Directors which approved the Transaction, subject to the approval of a majority of our disinterested common stockholders. Our disinterested common stockholders approved the Transaction on March 29, 2000.

Table of Contents

Perini and the Purchasers and former holders of the Series B Preferred Stock entered into a Shareholders Agreement and a Registration Rights Agreement at the closing of the Transaction. Among other things, the Shareholders Agreement provides for the following:

That between the third and sixth anniversaries of the closing of the Transaction, National Union will have a put right to cause Tutor-Saliba and/or Mr. Tutor or certain permitted transferees to purchase half (but not less than half) of its Purchase Shares at a price so that National Union earns a 10% internal rate of return on its investment in such shares. During the same period Tutor-Saliba will have a call right to cause National Union and/or its permitted transferees, if any, to sell such shares to Tutor-Saliba at a price so that National Union earns a 14% internal rate of return on its investment in such shares. In addition to the foregoing put and call rights, National Union will have a right of first refusal on Tutor-Saliba s disposition of its Purchase Shares and Tutor-Saliba will have a right of first refusal on one half of National Union s Purchase Shares.

Subject to the right of first refusal described in the prior paragraph, the parties to the Shareholders Agreement have certain tag-along rights. If any party to the Shareholders Agreement desires to sell its shares, each of the non-selling parties to the Shareholders Agreement will have the right to participate in such sale and to dispose of its pro rata share of the stock to be sold in such transaction. However, National Union may sell up to one half of its Purchase Shares without triggering the foregoing tag-along right.

Each of the parties to the Shareholders Agreement has the right to subscribe to any new issuance of equity securities (except for certain issuances such as conversions of convertible securities, exercises of options or issuances pursuant to a benefit plan) by us in an amount up to such stockholder s pro rata share of the new issuance of securities based on its percentage ownership of our outstanding common stock.

The Shareholders Agreement gives National Union, Tutor-Saliba, O&G, PB Capital and The Union Labor Life Insurance Company acting on behalf of its Separate Account P, or ULLICO, the right to designate one director each for election to our Board of Directors. We agreed to nominate such individuals for election or appointment to our Board of Directors at the earliest possible time, to use our best efforts to cause such persons to be elected to the Board, and to renominate each such person (or other person as may be designated by National Union, Tutor-Saliba, O&G, PB Capital or ULLICO) at such time as he or she is required to stand for reelection to the Board. The right to designate a person to be elected as a director terminates in the case of each Purchaser when such Purchaser and its permitted transferees own less than 25% of the common stock purchased by such Purchaser in the Transaction and in the case of PB Capital and ULLICO, when such stockholder and its permitted transferees own less than 5% of the outstanding shares of common stock received by such party in the Exchange. Each of PB Capital and ULLICO also has certain observer rights on the Board until such time as it ceases to own 2.5% of the outstanding shares of common stock. Each party to the Shareholders Agreement has agreed to vote all of its shares in favor of the directors designated by each of the other parties thereto.

After this offering, ULLICO will not hold any of our outstanding common stock and, as a result, it will no longer have the right to designate a director for election or appoint an observer on our Board of Directors.

Since the common stock issued in connection with the Transaction and the Exchange was not registered under the Securities Act of 1933, as amended, we entered into a Registration Rights Agreement with the Purchasers and former holders of the Series B Preferred Stock which requires us, under certain circumstances, to register some or all of the shares held by such parties under the Securities Act after March 29, 2003. See Description of Capital Stock Registration Rights Agreements.

Table of Contents

Joint Ventures

Tutor-Saliba Joint Ventures

Historically, we have participated in joint ventures with Tutor-Saliba both on a sponsored and a non-sponsored basis and currently participate in certain joint ventures with them, our share of which contributed $36.8 million (or 4.2%), $48.8 million (or 4.5%), $17.9 million (or 1.1%) and $4.6 million (or 0.4%) to our consolidated revenues for the nine months ended September 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively.

In late 2000, we entered into a joint venture arrangement with Tutor-Saliba, the sponsoring partner, whereby we were to primarily provide certain prequalification and proposal support services to the joint venture in return for a fixed fee of $500,000 payable subsequent to the award and start-up of the project. In addition, the agreement provided that we would not be liable for any costs, losses, liabilities or damages that may arise from the project. Payment of the fee was received from Tutor-Saliba in February 2002. In late 2001, we entered into a similar joint venture arrangement with Tutor-Saliba, the sponsoring partner, whereby we were to primarily provide certain prequalification and proposal support services to the joint venture in return for a fixed fee of $200,000 payable subsequent to the award and start-up of the project. In addition, the agreement provided that we would not be liable for any costs, losses, liabilities or damages that may arise from the project. Payment of the fee was received from Tutor-Saliba in February 2002.

In late 2002, we entered into an arrangement with Tutor-Saliba whereby Tutor-Saliba provided a financial guarantee in order for us to secure a performance and payment bond on a building project with an estimated contract value of approximately $135 million. As compensation for the financial guarantee, we paid Tutor-Saliba a fee of $1.0 million in February 2003.

As more fully discussed in Business Legal Proceedings, we have been a party to certain joint ventures with Tutor-Saliba in the past which are currently in litigation.

O&G Joint Ventures

We also participated in certain joint ventures with O&G Industries, Inc., of which Raymond R. Oneglia, a director of Perini, is vice chairman of the board of directors. Our share of these joint ventures contributed $0.9 million and $0.6 million to our consolidated revenues for the nine months ended September 30, 2003 and the year ended December 31, 2001, respectively.

AIG Relationship

National Union Fire Insurance Company of Pittsburgh, Pa., a wholly owned subsidiary of AIG, is one of our sureties and a provider of insurance and insurance related services to us. Payments to AIG for surety, insurance and insurance related services approximated $6.3 million, $9.5 million, $8.2 million and $4.6 million for the nine months ended September 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively. The quality and cost of insurance services rendered are reviewed on an annual basis and competitive bids are obtained when deemed appropriate.

Tender Offer for Depositary Shares

On June 9, 2003, we completed a tender offer for our Depositary Shares at a purchase price of $25.00 per Depositary Share, net to the seller without interest. See Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments. Mr. Asher Edelman, a director of Perini, tendered or caused to be tendered 174,500 Depositary Shares that he beneficially owned or controlled.

Table of Contents

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information concerning beneficial ownership as of December 15, 2003 of our common stock by:

- each person known by us to beneficially own 5% or more of our common stock and total as a group; and;
- each of our directors and each of our executive officers for whom compensation information is given in the Summary Compensation Table in this prospectus.

Pursuant to the Registration Rights Agreement described under Description of Capital Stock Registration Rights Agreements, certain of the stockholders listed below have requested that we register for sale their previously unregistered shares. The following table sets forth the number of shares of common stock beneficially owned by all of our principal stockholders (including the selling stockholders) as of December 15, 2003, the number of shares of common stock covered by this prospectus and the percentage of total shares of common stock that the selling stockholders will beneficially own upon completion of this offering if such percentage exceeds one percent. This table assumes that the selling stockholders will offer for sale all of the shares of common stock covered by this prospectus.

The amounts and information set forth below are based upon information provided to us by representatives of the selling stockholders, or on our records, as of December 15, 2003 and are accurate to the best of our knowledge. It is possible, however, that the selling stockholders may acquire or dispose of additional shares of common stock from time to time after the date of this prospectus.

	Shares Beneficially Owned Prior to the Offering (1)			Shares Beneficially Owned After the Offering (3)	
Name and Address	**Shares**	**%**	**Amount Offered (2)**	**Shares**	**%**
Beneficial Ownership of 5% or More					
Tutor-Saliba Corporation 15901 Olden Street Sylmar, CA 91342	6,527,729(4),(10)	27.07%		6,527,729	27.07%
Ronald N. Tutor 73 Mt. Wayte Avenue Framingham, MA 01701	6,527,729(4)(10)	27.07%		6,527,729	27.07%
National Union Fire Insurance	4,705,882(5),(10)	20.56%	2,046,036	2,659,846	11.62%

Company of Pittsburgh, Pa. 70 Pine Street New York, NY 10270					
O&G Industries, Inc. 112 Wall Street Torrington, CT 06790	2,502,941(6),(10)	10.94%		2,502,941	10.94%
Blum Capital Partners, L.P. 909 Montgomery Street, Suite 400 San Francisco, CA 94133	5,485,324(7),(10)	23.97%	22,421	3,117,147(8)	13.62%
PB Capital Partners, L.P. 909 Montgomery Street, Suite 400 San Francisco, CA 94133	4,244,149(10)	18.55%	1,183,408	3,060,741	13.37%
The Common Fund for Non-Profit Organizations c/o Blum Capital Partners, L.P. 909 Montgomery Street, Suite 400 San Francisco, CA 94133	1,162,348(10)	5.08%	1,162,348		

63

Table of Contents

Name and Address	Shares Beneficially Owned Prior to the Offering (1) Shares	%	Amount Offered (2)	Shares Beneficially Owned After the Offering (3) Shares	%
Richard C. Blum 909 Montgomery Street, Suite 400 San Francisco, CA 94133	5,485,324(7)	23.97%		3,117,147(8)	13.62%
Richard C. Blum & Associates, Inc. 909 Montgomery Street, Suite 400 San Francisco, CA 94133	5,485,324(7)	23.97%		3,117,147(8)	13.62%
The Union Labor Life Insurance Company, acting on behalf of Separate Account P 111 Massachusetts Avenue, NW Washington, DC 20001	1,721,075(9),(10)	7.52%	1,496,587	224,488	0.98%
Total beneficial owners of more than 5% of Perini s Common Stock	18,590,010(11)	77.10%(11)	5,910,800	12,679,210(12)	52.59%(12)
Beneficial Ownership of Directors and Executive Officers					
Ronald N. Tutor	6,527,729(4)	27.07%		6,527,729	27.07%
Robert Band	242,011(13)	1.05%		242,011	1.05%
Peter Arkley	4,700(14)	*		4,700	*
Michael R. Klein (15)	202,255(16)	*		202,255	*
Robert A. Kennedy (17)	6,000(18)	*		6,000	*
Raymond R. Oneglia (19)	6,000(20)	*		6,000	*
Wayne L. Berman		*			*
James A. Cummings (21)		*			*
Michael E. Ciskey	33,000(22)	*		33,000	*
Zohrab B. Marashlian	444,600(23)	1.91%		444,600	1.91%
Craig W. Shaw	447,120(24)	1.92%		447,120	1.92%
Frederick Doppelt	54,622(25)	*		55,622	*
Asher B. Edelman	699(26)	*		699	*
All Directors and Executive Officers as a group	7,968,736	31.29%		7,969,736	31.29%

* Represents less than 1% of the outstanding shares of common stock

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock and options or warrants that are currently exercisable or exercisable within 60 days of December 15, 2003 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) The number of shares being offered excludes any shares that may be sold as a result of the exercise by the underwriters of their over-allotment option and any shares beneficially owned.

(3) Based on 22,885,535 shares of common stock outstanding as of December 15, 2003.

(4) Includes 2,704,260 shares of common stock that represent sole voting and investing power based on information contained in Schedule 13D/A of Tutor-Saliba Corporation, or Tutor-Saliba, dated April 5, 2000. Ronald N. Tutor, our Chairman and Chief Executive Officer, is also the sole stockholder and chief executive officer of Tutor-Saliba. Also includes 1,225,000 shares for which Mr. Tutor holds options and 2,352,941 shares for which Tutor-Saliba has the right to call and purchase from National Union Fire Insurance Company

of Pittsburgh, Pa., or National Union, during a three-year period commencing on March 29, 2003 in accordance with the Shareholders Agreement discussed under Certain Transactions. Also includes 245,528 shares of common stock representing Tutor-Saliba s former limited partnership interest in PB Capital Partners, L.P., or PB Capital (see Note 7 below), that was distributed to Tutor-Saliba on November 13, 2003. Upon such distribution by PB Capital, Tutor-Saliba s limited partnership interest in PB Capital was liquidated.

(5) Represents shared voting and investment powers based on information contained in Schedule 13D/A of American International Group, Inc., the parent company of National Union, filed on April 12, 2000. See Certain Transactions.

(6) Represents sole voting and investment powers based on information contained in Schedule 13D of O&G Industries, Inc., or O&G, filed on February 15, 2000 and as updated for O&G s participation in the Transaction, as described in Certain Transactions.

(7) Blum Capital Partners, L.P., or BCP, formerly known as Richard C. Blum & Associates, L.P., is the sole general partner of PB Capital. The amount in the table includes:

4,244,149 shares of common stock held by PB Capital, over which BCP beneficially has shared voting and investment power;

49,801 shares of common stock held by a limited partner of PB Capital for which BCP serves as an investment advisor;

1,162,348 shares held by The Common Fund for Non-Profit Organizations for the account of its Equity Fund, or The Common Fund, a fund for which BCP serves as an investment adviser and over which BCP beneficially has shared voting and investment power; and

29,026 shares of common stock held directly by BCP (22,421 shares of which are being sold in this offering, see Note 8 below).

Until November 13, 2003, Tutor-Saliba was a limited partner of PB Capital. See Note 4 above. Richard C. Blum & Associates, Inc., or RCBA Inc., is the sole general partner of BCP. Richard C. Blum is the chairman of the board of directors and a substantial shareholder of RCBA Inc. Mr. Blum disclaims beneficial ownership of the securities reported in the table except to the extent of his pecuniary interest therein. The Common Fund expressly disclaims membership in any group with BCP, Richard C. Blum or any other related entity and disclaims beneficial ownership of securities owned directly or indirectly by any other person or entity. Also, see Certain Transactions.

(8) Includes (a) 3,060,741 shares of common stock held by PB Capital after this offering, over which BCP beneficially has shared voting and investment power, (b) 6,605 shares of common stock which will be held directly by BCP and (c) the 49,801 shares of common stock held by a limited partner of PB Capital for which BCP serves as an investment advisor. RCBA Inc. is the sole general partner of BCP and Mr. Blum is the chairman and a substantial shareholder of RCBA Inc. (see Note 7 above).

(9) Represents sole voting and investing power based on information contained in Schedule 13D/A dated April 12, 2000, filed by The Union Labor Life Insurance Company, or ULLICO. Also, see Certain Transactions.

(10) Pursuant to the Shareholders Agreement discussed under Certain Transactions, these stockholders and Perini agreed to, among other things, nominate certain individuals designated by these stockholders for election or appointment to our Board of Directors and the stockholders have agreed to vote for each of the designated nominees.

(11) The share amount and share percentage eliminates the duplication relating to (a) PB Capital s 4,244,149 shares of common stock and The Common Fund s 1,162,348 shares of common stock listed separately above and also included in the totals for BCP (see Note 7 above), (b) the shares of common stock beneficially owned by RCBA Inc. and Mr. Blum as a result of their relationship with BCP (see Notes 7 and 8 above), (c) 6,527,729 shares of common stock beneficially owned by Mr. Tutor which are also included in Tutor-Saliba s total (see Note 4 above) and (d) 2,352,941 shares of common stock included in Tutor-Saliba s total for which Tutor-Saliba has the right to call and purchase from National Union (see Note 4 above) and also included in National Union s total (see Note 5 above).

Table of Contents

(12) The share amount and share percentage eliminates the duplication relating to (a) PB Capital s 3,060,741 shares of common stock which are also included in BCP s total (see Note 8 above), (b) the shares of common stock beneficially owned by RCBA Inc. and Mr. Blum as a result of their relationship with BCP (see Notes 7 and 8 above), (c) 6,527,729 shares of common stock beneficially owned by Mr. Tutor which are also included in Tutor-Saliba s total (see Note 4 above) and (d) 2,352,941 shares of common stock included in Tutor-Saliba s total for which Tutor-Saliba has the right to call and purchase from National Union (see Note 4 above) and also included in National Union s total (see Note 5 above).

(13) Includes 237,500 shares for which Mr. Band holds options.

(14) Includes 4,700 shares for which Mr. Arkley holds options.

(15) Mr. Klein was originally elected to our Board of Directors as the designated nominee of PB Capital, a partnership that owned 4,244,149 shares of common stock and a partnership whose sole general partner is BCP. BCP is an investment advisor to The Common Fund for Non-Profit Organizations for the account of its Equity Fund that owns 1,162,348 shares of common stock. Mr. Klein generally disclaims beneficial ownership in these shares owned by these entities. See Note 7 and Note 16.

(16) Includes 7,261 shares of common stock received in payment of the director s annual retainer from 1997 to 1999. See Management Directors Compensation. Also includes 133,000 shares for which Mr. Klein holds options. Includes (a) 53,694 shares of common stock representing Mr. Klein s former limited partnership interest in PB Capital (see Note 7 above), and (b) 8,300 shares of common stock representing his minor children s interest in the same partnership that were distributed to Mr. Klein on November 13, 2003. As a result of such distribution, Mr. Klein s limited partnership interest and the limited partnership interest of his minor children were liquidated.

(17) Mr. Kennedy is the designated nominee to the Board of Directors of ULLICO, a company that owns 1,721,075 shares of common stock on behalf of its Separate Account P and a company in which Mr. Kennedy was the Vice President of Special Projects until his retirement in 2003. Mr. Kennedy disclaims any beneficial ownership of these shares. See Note 9 above.

(18) Includes 6,000 shares for which Mr. Kennedy holds options.

(19 Mr. Oneglia is the designated nominee to the Board of Directors of O&G, a company that owns 2,502,941 shares of common stock, and a company in which Mr. Oneglia is the vice chairman. Mr. Oneglia disclaims any beneficial ownership of these shares. See Note 6 above.

(20) Includes 6,000 shares for which Mr. Oneglia holds options.

(21) Mr. Cummings appointment as a director was in accordance with the terms of the Stock Purchase and Sale Agreement dated December 16, 2002 between Perini, James A. Cummings, Inc. and the James A. Cummings, Inc. stockholders, of which Mr. Cummings was one, whereby Perini purchased 100% of the outstanding common stock of James A. Cummings, Inc. effective as of January 1, 2003. See Note 13 entitled Subsequent Events of Notes to Consolidated Financial Statements.

(22) Includes 33,000 shares for which Mr. Ciskey holds options.

(23) Includes 444,600 shares for which Mr. Marashlian holds options.

(24) Includes 445,000 shares for which Mr. Shaw holds options.

(25) Includes 3,121 shares of common stock received in payment of the 1999 director s annual retainer and 8,000 shares for which Mr. Doppelt holds options. See Management Directors Compensation. Also includes 42,501 shares of common stock resulting from the assumed conversion of 64,200 Depositary Shares at a conversion rate of .662 shares of common stock for each Depositary Share. Of the 64,200 Depositary Shares, 2,000 Depositary Shares are owned by Mr. Doppelt s wife and 17,600 shares are owned by trusts or estates as to which Mr. Doppelt serves as trustee and disclaims any beneficial ownership. The percentage of Depositary Shares beneficially owned by Mr. Doppelt to the total number of shares of Depositary Shares outstanding is 11.48%. Mr. Doppelt is a plaintiff in a suit against certain current and former directors of Perini with respect to the Depositary Shares, discussed under Business Legal Proceedings $21.25 Preferred Shareholders Class Action Lawsuit.

(26) Includes 199 shares of common stock resulting from the assumed conversion of 300 Depositary Shares at a conversion rate of .662 shares of common stock for each Depositary Share. These shares are held by a custodian on behalf of certain funds for which Mr. Edelman s firm is an investment advisor. Mr. Edelman tendered, or caused to be tendered, 174,500 Depositary Shares that he beneficially owned or controlled in

Table of Contents

the tender offer which we completed on June 9, 2003 at a purchase price of $25.00 per Depositary Share net to the seller, without interest. The percentage of Depositary Shares now beneficially owned by Mr. Edelman to the total number of shares of Depositary Shares outstanding is less than 1%.

Each of the principal stockholders listed above as well as certain of our directors and executive officers listed above have agreed, subject to certain exceptions, not to dispose of or hedge any common stock or any securities convertible into or exchangeable or exercisable for any shares of our common stock without the prior consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus. As of the date of this filing, one of our directors, who currently beneficially owns 199 shares of our common stock (issuable upon conversion of Depositary Shares at a conversion rate of .662 shares of common stock for each Depositary Share), has not signed the lock-up agreements described above. See Underwriting. Following the expiration of the lock-up period, the shareholders party thereto will be able to dispose of certain of their shares of common stock pursuant to the Registration Rights Agreement discussed under Description of Capital Stock Registration Rights Agreements.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

Our articles of organization, as amended, authorize the issuance of 40,000,000 shares of common stock, par value $1.00 per share and 1,000,000 shares of preferred stock, par value $1.00 per share. As of September 30, 2003, there were 22,842,535 shares of common stock outstanding, 55,927 shares of $21.25 Preferred Stock outstanding, 370,239 shares of common stock reserved for issuance upon conversion of the $21.25 Preferred Stock, options to purchase 3,048,800 shares of common stock outstanding, and warrants to purchase 420,000 shares of our common stock outstanding.

Common Stock

Subject to the rights of the holders of preferred stock then outstanding, holders of common stock are entitled to one vote per share on matters to be voted on by stockholders and are entitled to receive such dividends, if any, as may be declared from time to time by our Board of Directors in its discretion out of funds legally available therefor. Upon our liquidation or dissolution, the holders of common stock are entitled to receive pro rata all assets remaining available for distribution to stockholders after payment of all liabilities and provision for the liquidation of any shares of preferred stock at the time outstanding. The common stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such stock. The payment of dividends on the common stock is subject to the prior payment of dividends on any outstanding preferred stock. Further, our revolving credit facility, as well as certain other agreements, provides for, among other things, maintaining specified working capital and tangible net worth levels and limitations on indebtedness, all of which could impact our ability to pay dividends.

Preferred Stock

Our charter authorizes the issuance of 1,000,000 shares of preferred stock, par value $1.00 per share. Currently, 100,000 shares of preferred stock are designated as the $21.25 Convertible Exchangeable Preferred Stock, of which 55,927 shares are outstanding, and 200,000 shares are designated as Series A Junior Participating Cumulative Preferred Stock in connection with the adoption of our Shareholder Rights Plan described below. Our authorized but unissued preferred stock may be issued from time to time in one or more series, without stockholders approval. Subject to limitations prescribed by law and by our charter, the Board of Directors is authorized to determine the relative rights and preferences for each series of preferred stock that may be issued, and to fix the number of shares of such series. Thus, our Board of Directors, without stockholder approval, could authorize the issuance of additional preferred stock with voting, conversion and other rights that could adversely affect the voting power and other rights of holders of our common stock or that could make it more difficult for another company to effect certain business combinations with us.

Notwithstanding the fixing of the number of shares constituting a particular series, our Board of Directors may at any time authorize the issuance of additional shares of the same series. Any preferred stock converted, redeemed, exchanged or otherwise acquired by us will, upon cancellation, have the status of authorized but unissued preferred stock undesignated as to series subject to reissuance by our Board of Directors.

$21.25 Preferred Stock

Holders of shares of $21.25 Preferred Stock are entitled to receive an annual cash dividend of $21.25 per share, or $2.125 per Depositary Share, when and as declared by the Board of Directors out of funds legally available for such purposes. Unless full cumulative dividends have been paid or declared, no cash dividends may be declared or paid or other cash distribution made on the common stock. Holders of the $21.25 Preferred Stock are entitled at any time to convert shares of $21.25 Preferred Stock into our common stock at the conversion price of $377.50, subject to adjustment in certain circumstances. Each share of the $21.25 Preferred Stock is

Table of Contents

exchangeable, in whole but not in part, at our option, for $250 principal amount of our 8 1/2% Convertible Subordinated Debentures Due 2012. Holders of such debentures will be entitled at any time to convert such debentures into common stock at the conversion price of $377.50 per Depositary Share, subject to adjustment in certain circumstances.

The $21.25 Preferred Stock is redeemable at our option, in whole or in part, at specified redemption prices per share. The $21.25 Preferred Stock is not entitled to vote, except as to certain matters in regard to the creation of an additional series of preferred stock or in the event of an arrearage on dividends. The terms of the $21.25 Preferred Stock provide that if six quarterly dividends on the $21.25 Preferred Stock shall have accumulated and been unpaid, the number of directors on our Board will be increased by two and the holders of the $21.25 Preferred Stock, voting together as a class with any other series of preferred stock with the same rank similarly affected, will be entitled to elect those additional two directors until all dividends in default have been paid or declared and funds have been set apart for payment therefor, at which time those two directors would resign from our Board and the number of directors would be reduced by two. While quarterly dividends on the $21.25 Preferred Stock have not been paid since 1995, they have been fully accrued due to the cumulative feature of the $21.25 Preferred Stock. As a result of exceeding the six-quarter limitation, the holders of the $21.25 Preferred Stock have been entitled to elect two additional Directors, and they have done so at each of the last six annual meetings of stockholders. As discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations Dividends $21.25 Preferred Stock, there are no plans for payment of any such dividends.

In the event of an involuntary liquidation, or an amount equal to the then applicable optional redemption price in the event of a voluntary liquidation, holders of the $21.25 Preferred Stock are entitled to receive a liquidating distribution of $250 per share.

The outstanding $21.25 Preferred Stock are represented by Depositary Shares. Each Depositary Share (evidenced by a depositary receipt) represents a one-tenth fractional interest in the respective share of $21.25 Preferred Stock (including dividend, voting, redemption and liquidation rights and preferences). The $21.25 Preferred Stock have been deposited with EquiServe Trust Company, N.A., as Depositary, under a Deposit Agreement between Perini, EquiServe Trust Company, N.A., and the holders from time to time of the depositary receipts issued under the Deposit Agreement. The depositary receipts evidence the Depositary Shares.

Stock Purchase Warrants

As of September 30, 2003, we have reserved 420,000 shares of common stock for issuance upon the exercise of stock purchase warrants issued in January 1997 to members of our banking group at that time in connection with an amended credit agreement. The warrants are exercisable at a per share exercise price of $8.30 subject to anti-dilution adjustment in the event of certain distributions and other corporate events. The warrants expire on January 17, 2007.

Registration Rights Agreements

Registration Rights Agreements

The following is a summary of material terms and provisions of registration rights agreements that we have entered into with certain existing stockholders.

In March 2000, we entered into a registration rights agreement with certain existing stockholders, as may hereafter be referred to as the March 2000 Registration Rights Agreement. Under this agreement, we granted these stockholders the right to require us, subject to the terms and conditions set forth in the agreement, to register shares of common stock held by them for sale.

Each of the stockholders that is a party to this agreement may request one demand registration, except National Union, which may request two. Subject to limitations set forth in this agreement, the parties also have the right to participate in any demand registration requested by any other stockholder that is a party to the agreement. In addition, we have granted the parties to this agreement the right, subject to exceptions set forth therein, to participate in registrations of common stock initiated by us on our own behalf or on behalf of any other stockholder. BCP, PB Capital and The Common Fund have exercised their right requiring us to register a portion of their shares under the Securities Act, precipitating this offering. All of the other selling stockholders named in this offering have exercised their piggyback rights in connection with this offering.

Under the March 2000 Registration Rights Agreement, we are required to pay the fees and expenses of the selling stockholders in connection with any demand and piggyback registrations. We also have agreed to indemnify the holders of registration rights under this agreement against specified liabilities, including liabilities under the Securities Act, and to contribute to payments they may be required to make. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and persons controlling us as described above, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. The March 2000 Registration Rights Agreement will terminate on the earlier of the date upon which the parties to the agreement no longer hold any shares of common stock that must be registered in order to be sold or the date upon which the parties agree that the agreement should be terminated.

In December 2003, we entered into a letter agreement with BCP, PB Capital and The Common Fund, hereinafter collectively referred to as the Blum parties. Under this letter agreement, we granted these stockholders an additional demand registration right to require us, subject to the terms and conditions set forth in the letter agreement, to register shares of common stock held by them for sale. The letter agreement provides that this demand registration right is subject to certain terms and conditions set forth in the March 2000 Registration Rights Agreement discussed above. Parties to the March 2000 Registration Rights Agreement may participate in the demand registration of common stock requested by the Blum parties.

Under this letter agreement, we agreed to pay the fees and expenses of the selling stockholders in connection with the exercise of their demand right and any piggyback registrations. This letter agreement will not become effective, and the Blum holders will have no right to exercise their demand registration rights until this Registration Statement has become effective. Under this letter agreement, the Blum holders may exercise their demand registration rights until they no longer hold any shares of common stock that must be registered in order to be sold.

Warrantholders Rights Agreement

In January 1997, we issued warrants to purchase our common stock to members of our banking group in connection with an amended credit agreement. As part of this issuance, we entered into a warrantholder rights agreement with the warrantholders. Under this agreement, we granted these warrantholders the right to require us, upon request by holders of a majority of warrants and common stock received upon exercise of warrants, subject to the terms and conditions set forth in this agreement, to register the resale of shares of the common stock held by them upon exercise of their warrants. Under this agreement, we agreed to pay the fees and expenses of one counsel to the selling stockholders in connection with their registration. We have also agreed to indemnify the holders of these registration rights under this agreement against specified liabilities, including liabilities under the Securities Act, and to contribute to payments that they may be required to make. This warrantholders rights agreement will terminate on the date upon which the parties to the warrantholders rights agreement no longer hold any shares, or warrants to purchase shares, of common stock that must be registered in order to be sold. The warrants expire in January 2007.

Shareholder Rights Plan

We have adopted a Shareholder Rights Plan pursuant to which we issued one preferred stock purchase right, or a Right, for each outstanding share of common stock. Each Right entitles the registered holder to purchase

Table of Contents

from us a unit consisting of one one-hundredth of a share of Series A Junior Participating Cumulative Preferred Stock, par value $1.00 per share, or the Series A Preferred Stock, at a cash exercise price of $100 per unit, subject to adjustment. Each share of Series A Preferred Stock will be entitled to receive a minimum preferential quarterly dividend equal to the greater of $20.00 or 100 times the dividend payable to holders of shares of common stock. In the event of a liquidation, no distribution shall be made (x) to the holders of stock ranking junior to the Series A Preferred Stock unless, prior thereto, the holders of Series A Preferred Stock receive a distribution equal to the greater of $10,000.00 or 100 times the payment made for each share of common stock or (y) to the holders of any other class or series of stock ranking on a parity (either as to dividends or liquidation preferences) with the Series A Preferred Stock except distributions made ratably on the Series A Preferred Stock and all other such parity stock in proportion to the total amounts to which holders of all such shares are entitled upon a liquidation. The Series A Preferred Stock ranks junior to the $21.25 Preferred Stock with respect to dividends and liquidation preferences but senior to the common stock.

The Shareholder Rights Plan may have the effect of delaying, deferring or preventing a change in control of us. State Street Bank and Trust Company is the agent for the Rights. Currently, the Rights are not exercisable and are attached to all outstanding shares of common stock and will be attached to the shares of common stock being offered hereby. No separate Right Certificates will be distributed until the distribution date. Upon occurrence of the distribution date, the Rights will separate from the common stock.

Under the Shareholder Rights Plan, the distribution date is defined as the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons is an acquiring person (the date of said announcement being referred to as the stock acquisition date), or (ii) 10 business days following the commencement of a tender offer or exchange offer that would result in a person or group becoming an acquiring person, or (iii) the declaration by the Board of Directors that any person is an adverse person.

Under the Shareholder Rights Plan, an acquiring person is defined as a person or group of affiliated or associated persons (other than us and certain of our affiliates and other exempted persons) that has acquired beneficial ownership of 10% or more of the outstanding shares of common stock.

Under the Shareholder Rights Plan, an adverse person is defined as any individual, group, firm, corporation, partnership or other entity (other than us and certain of our affiliates and other exempted persons) declared to be an adverse person by our Board of Directors upon a determination of our Board that the criteria set forth in the Shareholder Rights Plan apply to such individual, group or entity.

In the event that a stock acquisition date occurs or our Board of Directors determines that a person is an adverse person, proper provision will be made so that after the distribution date each holder of a Right will thereafter have the right to receive upon exercise that number of units of Series A Preferred Stock having a market value of two times the exercise price of the Right, such right hereafter referred to as the subscription right. In the event that, at any time following the stock acquisition date, (i) we are acquired in a merger or other business combination transaction or (ii) 50% or more of our assets or earning power is sold, after the distribution date each holder of a Right shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a market value equal to two times the exercise price of the Right, such right hereafter referred to as a merger right. The holder of a Right will continue to have the merger right whether or not such holder has exercised the subscription right. Rights that are or were beneficially owned by an acquiring person or an adverse person may (under certain circumstances specified in the Shareholder Rights Plan) become null and void. At any time after a stock acquisition date occurs or the Board of Directors determines that a person is an adverse person, the Board of Directors may, at its option, exchange all or any part of the then outstanding and exercisable Rights for shares of common stock or units of preferred stock at an exchange ratio of one share of common stock or one unit of preferred stock per Right.

The Rights may be redeemed in whole, but not in part, at a price of $0.02 per Right (payable in cash, common stock or other consideration deemed appropriate by the Board of Directors) by the Board of Directors at

Table of Contents

any time prior to the date on which a person is declared to be an adverse person, the tenth day after the stock acquisition date or the occurrence of an event giving rise to the merger right. Immediately upon the action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and thereafter the only right of the holders of Rights will be to receive the redemption price. Until a Right is exercised, the holder will have no rights as a stockholder of Perini (beyond those as an existing stockholder, including the right to vote or to receive dividends).

On January 17, 1997, the Board of Directors amended our Shareholder Rights Plan to (i) permit the acquisition of the Series B Preferred Stock by certain investors, any additional preferred stock issued as a dividend thereon, any common stock issued upon conversion of the Series B Preferred Stock and certain other events without triggering the distribution of the Rights and (ii) extend the expiration date of the Shareholder Rights Plan from September 23, 1998 to January 21, 2007. In addition, our Board of Directors amended the Shareholder Rights Plan, effective March 29, 2000, to permit the transactions as described in under Certain Transactions Series B Preferred Stock Exchange and certain other events without triggering the distribution of the Rights.

Massachusetts Anti-Takeover Laws

We are subject to Chapter 110F of the Massachusetts General Laws, an anti-takeover law. In general, this statute prohibits a publicly held Massachusetts corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction which results in the stockholder becoming an interested stockholder, unless:

- our Board of Directors approves the business combination or transaction which results in the stockholder becoming an interested stockholder prior to such event; or
- the interested stockholder acquires at least 90% of our outstanding voting stock, excluding shares held by certain of our directors who also serve as our officers and by certain employee stock plans, at the time it becomes an interested stockholder; or
- the business combination is approved by both our Board of Directors and the holders of two-thirds of our outstanding voting stock at a meeting of stockholders, excluding shares held by the interested stockholder.

The Massachusetts General Laws defines the term business combination to include a merger, a stock or asset sale, and certain other transactions resulting in a financial benefit to the interested stockholder. An interested stockholder is generally a person who, together with affiliates and associates, owns, or within three years, owned, 5% or more of our voting stock.

Our bylaws include a provision excluding us from the applicability of Massachusetts General Laws Chapter 110D, entitled Regulation of Control Share Acquisitions. In general, this statute provides that any stockholder of a corporation subject to this statute who acquires 20% or more of the outstanding voting stock of a corporation may not vote such stock unless the stockholders of the corporation so authorize. Our Board of Directors may amend our bylaws at any time to subject us to this statute prospectively.

Certain Anti-takeover Provisions of our Charter and Bylaws

Our charter and bylaws contain provisions which may prevent, discourage or delay any change in the control of Perini and may make it more difficult to remove a member of the Board of Directors or management. These provisions include:

Blank Check Preferred Stock

Our Board of Directors has the authority to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to effect a change in control or takeover of Perini.

Table of Contents

Staggered Board of Directors

Massachusetts General Laws Chapter 156B, Section 50A requires publicly-held Massachusetts corporations, such as Perini, to have a classified board of directors consisting of three classes as nearly equal in size as possible, unless the corporation elects to opt out of the statute s coverage. Our Board of Directors is currently divided into three classes. Each class of directors serves a three-year term. The classification of Directors could have the effect of making it more difficult for our stockholders, including those holding a majority of the outstanding shares, to force an immediate change in the composition of our Board.

Director Removal and Vacancies

Pursuant to our bylaws, stockholders may effectuate the removal of a director only for cause and with the affirmative vote of the majority of shares outstanding and entitled to vote. Vacancies in our Board of Directors may be filled only by the affirmative vote of a majority of the directors then in office.

Meeting of Stockholders

Our bylaws provide that a special meeting of stockholders may be called by our Chairman, President, our Board of Directors, or upon written application of one or more stockholders who hold at least 40% of our common stock entitled to vote at such meeting. In addition, our bylaws include advance notice and information requirements and time limitations on any director nomination or any new proposal which a stockholder desires to make at an annual meeting of stockholders.

Limitation on Liability and Indemnification of Directors and Officers

Our charter provides that no director shall be personally liable to us or to our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for any breach of the director s duty of loyalty to us or our stockholders, for acts or omissions not in good faith, for acts or omissions involving intentional misconduct or a knowing violation of law or for any transaction, or for any transaction from which the director derived an improper personal benefit. Our bylaws provide that our directors and officers will be indemnified against liabilities that arise from their service as directors and officers, subject to certain exceptions. We have entered into agreements with our directors and officers that also provide for such indemnification and expenses and liability reimbursement. We have obtained insurance which insures our directors and officers against certain losses and which insures us against our obligations to indemnify the directors and officers.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

Table of Contents

SHARES ELIGIBLE FOR FUTURE SALE

We cannot predict what effect, if any, market sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of our common stock. Nevertheless, sales of substantial amounts of common stock, including shares issued upon the exercise of outstanding options, in the public market, or the perception that these sales could occur, could materially and adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity or equity-related securities at a time and price that we deem appropriate.

As of the close of business on December 15, 2003, we had outstanding an aggregate of 22,885,535 shares of common stock, and this offering will not affect the number of our outstanding shares. All the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our Affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations described below.

Assuming the underwriters do not exercise their over-allotment option, additional shares of our common stock, which are not included in this offering will be available for sale in the public market pursuant to Rule 144 subsequent to the expiration of the lock-up agreements described below, as follows:

Number of Shares	Date
14,119,518	After 90 days from the date of this prospectus

Tutor-Saliba, Ronald N. Tutor, BCP, National Union, PB Capital, O&G and ULLICO, which will beneficially own 52.6% of our shares (or 48.9% if the underwriters exercise their over-allotment option in full) upon the closing of this offering, have the ability, subject to certain restrictions, to cause us to register the resale of certain of their shares.

Rule 144

In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated), including an affiliate, who has beneficially owned shares of our common stock for at least one year is entitled to sell in any three-month period a number of shares that does not exceed the greater of:

- 1% of then-outstanding shares of common stock, or 228,856 shares; and
- the average weekly trading volume in the common stock on the American Stock Exchange during the four calendar weeks preceding the date on which notice of sale is filed, subject to restrictions.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

In addition, a person who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, would be entitled to sell those shares under Rule 144(k) without regard to the manner of sale, public information, volume limitation or notice requirements of Rule 144. To the extent that our affiliates sell their shares, other than pursuant to Rule 144 or a registration statement, the purchaser s holding period for the purpose of effecting a sale under Rule 144 commences on the date of transfer from the affiliate.

Lock-Up Agreements

The selling stockholders and certain of our directors and executive officers have entered into the lock-up agreements described in Underwriting.

Table of Contents

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

General

The following is a general discussion of the material United States federal income and estate tax consequences of the ownership and disposition of common stock that may be relevant to you if you are a non-United States Holder. In general, a non-United States Holder is any person or entity that is, for United States federal income tax purposes, a foreign corporation, a nonresident alien individual, a foreign partnership or a foreign estate or trust. This discussion is based on current law, which is subject to change, possibly with retroactive effect, or different interpretations that could affect the tax consequences described herein. This discussion is limited to non-United States Holders who hold shares of common stock as capital assets. Moreover, this discussion is for general information only and does not address all the tax consequences that may be relevant to you in light of your personal circumstances, nor does it discuss special tax provisions that may apply to you if you relinquished United States citizenship or residence.

If you are an individual, you may, in many cases, be deemed to be a resident alien, as opposed to a nonresident alien, by virtue of being present in the United States for at least 31 days in the current calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For the aggregate days test, all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted. Resident aliens are subject to United States federal income tax as if they were United States citizens.

EACH PROSPECTIVE PURCHASER OF COMMON STOCK IS ADVISED TO CONSULT A TAX ADVISOR WITH RESPECT TO CURRENT AND POSSIBLE FUTURE TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF OUR COMMON STOCK AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE AS A RESULT OF YOUR PARTICULAR SITUATION OR UNDER THE LAWS OF ANY UNITED STATES STATE, MUNICIPALITY, FOREIGN OR OTHER TAXING JURISDICTION.

Dividends

If dividends are paid on the common stock, as a non-United States Holder, you generally will be subject to withholding of United States federal income tax at a 30% rate or at a lower rate as may be specified by an applicable income tax treaty, unless you are a foreign government or other foreign organization exempt from U.S. withholding. To claim the benefit of a lower rate under an income tax treaty, you must properly file with the payor an Internal Revenue Service Form W-8BEN, or successor form, claiming an exemption from or reduction in withholding under the applicable tax treaty. In addition, where dividends are paid to a non-United States Holder that is a partnership or other flow-through entity, the entity must properly file an Internal Revenue Service Form W-8IMY, or successor form, and persons holding an interest in the entity may need to provide certification claiming an exemption or reduction in withholding under the applicable treaty.

If dividends are considered effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, are attributable to a United States permanent establishment of yours, those dividends generally will not be subject to withholding tax, but instead will be subject to United States federal income tax on a net basis at applicable graduated individual or corporate rates, provided you file an Internal Revenue Service Form W-8ECI, or successor form, with the payor. If you are a foreign corporation, any effectively connected dividends may, under certain circumstances, be subject to an additional branch profits tax at a rate of 30% or at a lower rate as may be specified by an applicable income tax treaty.

If you are a foreign government, foreign tax-exempt organization or other foreign organization exempt from U.S. withholding, you must properly file an Internal Revenue Service Form W-8EXP with the payor.

You must comply with either the certification procedures described above, or, in the case of payments made outside the United States with respect to an offshore account, certain documentary evidence procedures, directly

75

or under certain circumstances through an intermediary, to obtain the benefits of a reduced rate under an income tax treaty with respect to dividends paid with respect to your common stock. In addition, if you are required to provide an Internal Revenue Service Form W-8ECI or successor form, as discussed above, you must also provide your tax identification number.

If you are eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Gain on Disposition of Common Stock

As a non-United States Holder, you generally will not be subject to United States federal income tax on any gain recognized on the sale or other disposition of common stock unless:

- the gain is considered effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, is attributable to a United States permanent establishment of yours (and, in which case, if you are a foreign corporation, you may be subject to an additional branch profits tax at a rate of 30% or at a lower rate as may be specified by an applicable income tax treaty).

- you are an individual who holds the common stock as a capital asset and you are present in the United States for 183 or more days in the taxable year of the sale, or certain other disposition and other conditions are met; or

- we are or have been a United States real property holding corporation, or a USRPHC, for United States federal income tax purposes. We believe that we are not currently, and are not likely to become, a USRPHC. If we were to become a USRPHC, then gain on the sale or other disposition of common stock by you generally would not be subject to United States federal income tax provided:

  - the common stock was regularly traded on an established securities market ; and

  - you do not actually or constructively own more than 5% of the common stock during the shorter of the five-year period preceding the disposition or your holding period.

Federal Estate Tax

If you are an individual, common stock held at the time of your death will be included in your gross estate for United States federal estate tax purposes, and may be subject to United States federal estate tax, unless an applicable estate tax treaty provides otherwise. You should consult your tax advisor for a full discussion of United States federal estate tax treatment.

Information Reporting and Backup Withholding Tax

We must report annually to the Internal Revenue Service and to you the amount of dividends paid to you and the tax withheld with respect to those dividends, regardless of whether withholding was required. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty or other applicable agreements.

Backup withholding is currently imposed at a rate of 28% on certain payments to persons that fail to furnish the necessary identifying information to the payor. You generally will be subject to backup withholding tax with respect to dividends paid on your common stock unless you certify your non-United States status.

Table of Contents

The payment of proceeds of a sale of common stock effected by or through a United States office of a broker is subject to both backup withholding and information reporting unless you provide the payor with your name and address and you certify your non-United States status or you otherwise establish an exemption. In general, backup withholding and information reporting will not apply to the payment of the proceeds of a sale of common stock by or through a foreign office of a broker. If, however, such broker is, for United States federal income tax purposes, a United States person, a controlled foreign corporation, a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or, a foreign partnership that at any time during its tax year either is engaged in the conduct of a trade or business in the United States or has as partners one or more United States persons that, in the aggregate, hold more than 50% of the income or capital interest in the partnership, such payments will be subject to information reporting, but not backup withholding, unless such broker has documentary evidence in its records that you are a non-United States Holder and certain other conditions are met or you otherwise establish an exemption.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished in a timely manner to the Internal Revenue Service.

Table of Contents

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , 2004, the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC is acting as representative, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse First Boston LLC	
D.A. Davidson & Co.	
Morgan Joseph & Co. Inc.	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to an aggregate of 886,620 additional outstanding shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the representative may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts and Commissions paid by us	$	$	$	$
Expenses payable by us	$	$	$	$

Underwriting Discounts and Commissions paid by selling stockholders	$	$	$	$
Expenses payable by the selling stockholders	$	$	$	$

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus, other than issuances of common stock pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date of this prospectus, grants of employee stock options pursuant to the terms of a plan in effect on the date of this prospectus or issuances of common stock pursuant to the exercise of such options.

Table of Contents

Our officers, certain of our directors and principal stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus, other than:

- the shares of common stock sold in this offering;
- transactions by any person relating to shares of common stock or our other securities acquired in open market transactions after the date of this prospectus;
- transfers of shares of common stock or any security convertible into or exercisable or exchangeable for our common stock as a bona fide gift or gifts; or
- (1) transfers or distributions of shares of common stock or any security convertible into or exercisable or exchangeable into our common stock to affiliates of that stockholder, (2) if the stockholder is a partnership or corporation, a distribution to the partners or shareholders of that stockholder; or (3) transfers by the stockholder (or its distributee or transferee) of common stock or securities convertible into or exercisable or exchangeable for our common stock to a family member of that stockholder (or its distributee or transferee) or trust created for the benefit of that stockholder (or its distributee or transferee), provided that, in each case, the transferee or distributee agrees to be bound by the restrictions contained in that stockholder s lock-up agreement.

As of the date of this filing, one of our directors, who currently beneficially owns 199 shares of our common stock (issuable upon conversion of Depositary Shares at a conversion rate of .662 shares of common stock for each Depositary Share), has not signed the lock-up agreements described above.

Credit Suisse First Boston LLC has no current intent or arrangement to release any shares subject to these lock-ups. The release of any lock-up will be considered on a case by case basis. In considering whether to release any shares, Credit Suisse First Boston LLC would consider the particular circumstances surrounding the request, including but not limited to, the length of time before the lock-up expires, the number of shares requested to be released, the reasons for the request, the possible impact on the market for our common stock and whether the holder of our shares requesting the release is an officer, director or other affiliate of ours.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Certain of the underwriters and their respective affiliates may have from time to time performed and may in the future perform various financial advisory, commercial banking and investment banking services for us in the ordinary course of business, for which they received or will receive customary fees.

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, and penalty bids in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of

Table of Contents

shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The American Stock Exchange and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may deliver prospectuses electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

Table of Contents

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling stockholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us, the selling stockholders and the dealer from whom the purchase confirmation is received that

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action - Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us and the selling stockholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling stockholders. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling stockholders will have no liability. In the case of an action for damages, we and the selling stockholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein and the selling stockholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

Table of Contents

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon by Goodwin Procter LLP, Boston, Massachusetts. The underwriters have been represented by Cravath, Swaine & Moore LLP, New York, New York.

EXPERTS

The consolidated financial statements included in this prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement (which reports express an unqualified opinion and include an explanatory paragraph referring to a retroactive change in presentation of Perini s joint ventures in the consolidated balance sheets from the equity method to the proportionate consolidation method and the restatement of basic and diluted earnings per share for the year ended December 31, 2000), and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file reports, proxy statements and other information with the Securities and Exchange Commission. We have also filed with the Securities and Exchange Commission a registration statement on Form S-1 to register our common stock. This prospectus, which forms part of the registration statement, does not contain all of the information included in the registration statement. For further information about us and our common stock offered in this prospectus, you should refer to the registration statement and its exhibits. You may read and copy the registration statement and any other document we file with the Securities and Exchange Commission at the Securities and Exchange Commission s Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, the Securities and Exchange Commission maintains a web site that contains registration statements, reports, proxy statements and other information regarding registrants, such as us, that file electronically with the Securities and Exchange Commission. The address of the web site is www.sec.gov. Except for the registration statement and its exhibits, the information we file with the Securities and Exchange Commission is not included or incorporated in the registration statement and should not be relied upon by potential investors in determining whether to purchase shares of our common stock in this offering.

Our common stock is listed on the American Stock Exchange under the symbol PCR, and you may also read and copy the documents referenced above at the offices of the American Stock Exchange, 86 Trinity Place, New York, New York 10006.

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

Independent Auditors Report

To the Stockholders of Perini Corporation:

We have audited the accompanying consolidated balance sheets of PERINI CORPORATION (a Massachusetts corporation) and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perini Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note (1)(b) to the consolidated financial statements, in 2002 the Company changed its method of reporting its interests in construction joint ventures in the Consolidated Balance Sheets from the equity method to the proportionate consolidation method and retroactively restated the 2001 and 2000 consolidated financial statements for the change. As discussed in Note (1)(i) to the consolidated financial statements, basic and diluted earnings per share for the year ended December 31, 2000 have been restated.

DELOITTE & TOUCHE LLP

Boston, Massachusetts

March 21, 2003

Table of Contents

Consolidated Balance Sheets

December 31, 2002 and 2001

(In thousands, except share data)

	2002	2001
Assets		
CURRENT ASSETS:		
Cash, including cash equivalents of $30,042 and $36,686 (Note 1)	$ 47,031	$ 56,542
Accounts and notes receivable, including retainage of $66,284 and $97,610	218,172	318,174
Unbilled work (Note 1)	112,563	97,425
Land held for sale, net (Note 5)	2,173	11,740
Other current assets	1,992	1,949
Total current assets	$ 381,931	$ 485,830
PROPERTY AND EQUIPMENT, at cost (Note 1):		
Land	$ 489	$ 489
Buildings and improvements	13,496	12,850
Construction equipment	12,338	10,240
Other equipment	7,577	7,594
	$ 33,900	$ 31,173
Less Accumulated depreciation	19,858	18,768
Total property and equipment, net	$ 14,042	$ 12,405
OTHER ASSETS (Notes 5 and 6)	$ 6,416	$ 3,006
	$ 402,389	$ 501,241
Liabilities and Stockholders Equity		
CURRENT LIABILITIES:		
Current maturities of long-term debt (Note 3)	$ 416	$ 10,249
Accounts payable, including retainage of $37,357 and $72,275	162,456	265,008
Deferred contract revenue (Note 1)	65,868	72,129
Accrued expenses	37,283	45,075
Total current liabilities	$ 266,023	$ 392,461
LONG-TERM DEBT, less current maturities included above (Note 3)	$ 12,123	$ 7,540
OTHER LONG-TERM LIABILITIES (Notes 6, 8 and 10)	$ 37,594	$ 21,832
CONTINGENCIES AND COMMITMENTS (Note 2)		

STOCKHOLDERS EQUITY (Notes 1, 7, 8, 9 and 10):		
Preferred stock, $1 par value -		
Authorized 1,000,000 shares		
Designated, issued and outstanding 99,990 shares of $21.25 convertible exchangeable preferred stock ($24,998 aggregate liquidation preference)	$ 100	$ 100
Series A junior participating preferred stock, $1 par value -		
Designated 200,000 shares		
Issued none		
Stock purchase warrants	2,233	2,233
Common stock, $1 par value -		
Authorized 40,000,000 shares		
Issued 22,724,664 shares	22,725	22,725
Paid-in surplus	95,546	97,671
Retained earnings (deficit)	(13,417)	(36,491)
Less common stock in treasury, at cost 60,529 shares	(965)	(965)
	$ 106,222	$ 85,273
Accumulated other comprehensive loss	(19,573)	(5,865)
Total stockholders equity	$ 86,649	$ 79,408
	$ 402,389	$ 501,241

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

F-3

Table of Contents

Consolidated Statements of Income

For the Years Ended December 31, 2002, 2001 and 2000

(In thousands, except per share data)

	2002	2001	2000
Revenues (Note 12)	$ 1,085,041	$ 1,553,396	$ 1,105,660
Cost of Operations	1,026,391	1,495,834	1,053,328
Gross Profit	$ 58,650	$ 57,562	$ 52,332
General and Administrative Expenses	32,770	28,061	24,977
INCOME FROM OPERATIONS (Note 12)	$ 25,880	$ 29,501	$ 27,355
Other (Income) Expense, Net (Note 6)	520	227	(949)
Interest Expense (Note 3)	1,485	2,006	3,966
Income before Income Taxes	$ 23,875	$ 27,268	$ 24,338
Provision (Credit) for Income Taxes (Notes 1 and 4)	801	850	(43)
NET INCOME	**$ 23,074**	**$ 26,418**	**$ 24,381**
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS (Note 1)	$ 20,949	$ 24,293	$ 7,299
BASIC EARNINGS PER COMMON SHARE (Note 1)	$ 0.92	$ 1.07	$ 0.39
DILUTED EARNINGS PER COMMON SHARE (Note 1)	$ 0.91	$ 1.04	$ 0.39

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

Table of Contents

Consolidated Statements of Stockholders Equity

For the Years Ended December 31, 2002, 2001 and 2000

(In thousands, except per share data)

	Preferred Stock	Stock Purchase Warrants	Common Stock	Paid-In Surplus	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 1999	**$ 100**	**$ 2,233**	**$ 5,743**	**$ 43,561**	**$ (87,290)**	**$ (965)**	**$**	**$ (36,618)**
Net Income					24,381			24,381
Preferred Stock dividends accrued ($21.25 per share*)				(2,125)				(2,125)
Series B Preferred Stock dividends in kind issued (Note 8)				(1,161)				(1,161)
Accretion related to Series B Preferred Stock (Note 8)				(96)				(96)
Net proceeds received from issuance of Common Stock (Note 7)			9,412	27,887				37,299
Exchange of Series B Preferred Stock for Common Stock (Note 7)			7,490	31,452				38,942
Balance - December 31, 2000	**$ 100**	**$ 2,233**	**$ 22,645**	**$ 99,518**	**$ (62,909)**	**$ (965)**	**$**	**$ 60,622**
Net Income					26,418			26,418
Other comprehensive income (loss):						<		
Cash from (used for) financing activities – continuing operations	(45,312)	(12,619)						
Cash from (used for) financing activities – discontinued operations	(4,495)	1,540						
Cash from (used for) financing activities	(49,807)	(11,079)						
Effect of currency exchange rate changes on cash and equivalents	(3,517)	(1,360)						
Increase (decrease) in cash and equivalents	19,594	1,887						
	91,017	88,787						

Cash and equivalents at beginning of year		
Cash and equivalents at September 30	110,611	90,674
Less cash and equivalents of discontinued operations at September 30	11,226	5,070
Cash and equivalents of continuing operations at September 30	$ 99,385	$ 85,604

Amounts may not add due to rounding.

See accompanying notes.

STATEMENT OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	Nine months ended September 30			
	GE(a)		Financial Services (GECC)	
(In millions)	2015	2014	2015	2014
Cash flows – operating activities				
Net earnings (loss)	$(12,465)	$9,930	$(17,459)	$5,398
Less net earnings (loss) attributable to noncontrolling interests	(38)	(151)	267	76
Net earnings (loss) attributable to the Company	(12,427)	10,081	(17,726)	5,322
(Earnings) loss from discontinued operations	10,336	(2,065)	10,332	(2,070)
Adjustments to reconcile net earnings (loss) attributable to the Company to cash provided from operating activities				
Depreciation and amortization of property, plant and equipment	1,777	1,891	1,841	1,929
(Earnings) loss from continuing operations retained by GECC(b)	7,844	(1,031)	-	-
Deferred income taxes	(407)	(618)	2,772	(689)
Decrease (increase) in GE current receivables	588	(535)	-	-
Decrease (increase) in inventories	(1,739)	(2,771)	(9)	20
Increase (decrease) in accounts payable	34	1,054	165	764
Increase (decrease) in GE progress collections	(1,278)	(748)	-	-
Provision for losses on GECC financing receivables	-	-	4,636	2,693
All other operating activities	1,798	1,917	1,943	(1,194)
Cash from (used for) operating activities – continuing operations	6,526	7,175	3,954	6,775
Cash from (used for) operating activities – discontinued operations	(10)	(1)	3,090	5,078
Cash from (used for) operating activities	6,516	7,174	7,044	11,853
Cash flows – investing activities				
Additions to property, plant and equipment	(2,708)	(2,806)	(2,643)	(2,627)
Dispositions of property, plant and equipment	525	393	2,074	2,059
Net decrease (increase) in GECC financing receivables	-	-	4,535	(1,585)
Proceeds from sale of discontinued operations	-	-	42,486	232
Proceeds from principal business dispositions	222	579	1,274	-
Net cash from (payments for) principal businesses purchased	(61)	(2,090)	(1,677)	-
All other investing activities	(1,037)	(647)	9,608	8,957
Cash from (used for) investing activities – continuing operations	(3,058)	(4,571)	55,657	7,036
Cash from (used for) investing activities – discontinued operations	10	1	7,218	(3,588)
Cash from (used for) investing activities	(3,048)	(4,570)	62,875	3,448
Cash flows – financing activities				
Net increase (decrease) in borrowings (maturities of 90 days or less)	716	(704)	(17,526)	(6,723)
Net increase (decrease) in bank deposits	-	-	5,329	6,933
Newly issued debt (maturities longer than 90 days)	3,537	3,058	14,336	26,547
Repayments and other debt reductions (maturities longer than 90 days)	(153)	(215)	(43,850)	(37,439)
Net dispositions (purchases) of GE shares for treasury	635	(1,359)	-	-
Dividends paid to shareowners	(6,960)	(6,643)	(611)	(2,382)

Proceeds from initial public offering of Synchrony Financial	-	-	-	2,842
All other financing activities	132	246	(1,363)	(359)
Cash from (used for) financing activities – continuing operations	(2,095)	(5,617)	(43,685)	(10,581)
Cash from (used for) financing activities – discontinued operations	-	-	(4,496)	1,540
Cash from (used for) financing activities	(2,095)	(5,617)	(48,181)	(9,041)
Effect of currency exchange rate changes on cash and equivalents	(479)	(93)	(3,038)	(1,267)
Increase (decrease) in cash and equivalents	894	(3,106)	18,700	4,993
Cash and equivalents at beginning of year	15,916	13,682	75,101	75,105
Cash and equivalents at September 30	16,810	10,576	93,801	80,098
Less cash and equivalents of discontinued operations at September 30	-	-	11,226	5,070
Cash and equivalents of continuing operations at September 30	$16,810	$10,576	$82,575	$75,028

(a) Represents the adding together of all affiliated companies except General Electric Capital Corporation (GECC or Financial Services), which is presented on a one-line basis.

(b) Represents GECC earnings/loss from continuing operations attributable to the Company, net of GECC dividends paid to GE.

Amounts may not add due to rounding.

See accompanying notes. Separate information is shown for "GE" and "Financial Services (GECC)." Transactions between GE and GECC have been eliminated from the "Consolidated" columns and are discussed in Note 17.
2015 3Q FORM 10-Q   PAGE 63

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements represent the consolidation of General Electric Company (the Company) and all companies that we directly or indirectly control, either through majority ownership or otherwise. See Note 1 to the consolidated financial statements of our Form 8-K filed on August 7, 2015 which discusses our consolidation and financial statement presentation. As used in this report on Form 10-Q (Report), "GE" represents the adding together of all affiliated companies except General Electric Capital Corporation (GECC or Financial Services), whose continuing operations are presented on a one-line basis; GECC consists of General Electric Capital Corporation and all of its affiliates; and "Consolidated" represents the adding together of GE and GECC with the effects of transactions between the two eliminated. Unless otherwise indicated, we refer to the caption revenues and other income simply as "revenues" throughout this Form 10-Q.

We have reclassified certain prior-period amounts to conform to the current-period presentation. Effective September 30, 2015, certain columns and rows may not add due to the use of rounded numbers. Percentages presented are calculated from the underlying numbers in millions. Unless otherwise indicated, information in these notes to the consolidated financial statements relates to continuing operations.

THE GE CAPITAL EXIT PLAN

On April 10, 2015, the Company announced its plan (the GE Capital Exit Plan) to reduce the size of its financial services businesses through the sale of most of the assets of GECC over the following 24 months, and to focus on continued investment and growth in the Company's industrial businesses. Under the GE Capital Exit Plan, which was approved on April 2, 2015 and aspects of which were approved on March 31, 2015, the Company will retain certain GECC businesses, principally its vertical financing businesses—GE Capital Aviation Services (GECAS), Energy Financial Services (EFS) and Healthcare Equipment Finance—that directly relate to the Company's core industrial domain and other operations, including Working Capital Solutions and our run-off insurance activities (together referred to as GE Capital Verticals or Verticals). The assets planned for disposition include Real Estate, most of Commercial Lending and Leasing (CLL) and all Consumer platforms (including all U.S. banking assets).

In the nine months ended September 30, 2015, GE recorded $21,061 million of after-tax charges related to the GE Capital Exit Plan, including $362 million of after-tax charges recorded in the third quarter of 2015, primarily exit-related charges in our CLL business, partially offset by income associated with operations in CLL and Real Estate. A description of after-tax charges for the nine months ended September 30, 2015 is provided below.

$9,756 million of net loss primarily related to the planned disposition of the Real Estate business and most of the CLL business, which is recorded in discontinued operations under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

$6,209 million of tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets, of which $6,057 million is reported in GECC's Corporate component and $152 million is reported in our Consumer business all recorded in continuing operations under the caption "Benefit (provision) for income taxes" in the Statement of Earnings.

$4,666 million of net asset impairments due to shortened hold periods, of which $3,151 million is recorded in continuing operations in our Consumer business primarily under the captions "Provisions for losses on financing receivables" and "Revenues from services" in the Statement of Earnings and $1,515 million is recorded in discontinued operations in our CLL business under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

$430 million of restructuring and other charges, of which $337 million is recorded in continuing operations in GECC's Corporate component under the caption "Other costs and expenses" in the Statement of Earnings and $93 million is recorded in discontinued operations in our CLL business under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

As part of the GE Capital Exit Plan, the Company and GECC entered into an amendment to their existing financial support agreement. Under this amendment (the Amendment), the Company has provided a full and unconditional guarantee (the Guarantee) of the payment of principal and interest on all tradable senior and subordinated outstanding long-term debt securities and all commercial paper issued or guaranteed by GECC identified in the Amendment. In the aggregate, the Guarantee applied to $183,670 million of GECC debt as of September 30, 2015. See Note 8. The Guarantee replaced the requirement that the Company make certain income maintenance payments to GECC in certain circumstances. GECC's U.S. public indentures were concurrently amended to provide the full and unconditional guarantee by the Company set forth in the Guarantee.

See Notes 2 and 7 to the consolidated financial statements for additional information.

INTERIM PERIOD PRESENTATION

The consolidated financial statements and notes thereto are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in our 2014 consolidated financial statements. Effective for the first quarter of 2015, the Company is following a calendar quarter. Previously, we established interim quarterly closing dates using a fiscal calendar, which required our businesses to close their books on either a Saturday or Sunday, depending on the business.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to the policies referenced in our 2014 Form 10-K Report and Form 8-K filed on August 7, 2015, we have supplemented the discussion of our significant accounting policies and critical accounting estimates to describe the estimates used to determine the fair value of businesses and assets held for sale as follows.

BUSINESSES AND ASSETS HELD FOR SALE

Businesses held for sale represent components that meet accounting requirements to be classified as held for sale and are presented as single asset and liability amounts in our financial statements with a valuation allowance, if necessary, to recognize the net carrying amount at the lower of cost or fair value, less cost to sell. Financing receivables that no longer qualify to be presented as held for investment must be classified as held for sale and recognized in our financial statements at the lower of cost or fair value, less cost to sell, with that amount representing a new cost basis at the date of transfer.

As previously discussed, as a result of the GE Capital Exit Plan, management has committed to reduce the size of its financial services businesses through the sale of most of the assets of GECC over the following 24 months. As a result, certain GECC businesses met the criteria to be classified as businesses held for sale and certain financing receivables were required to be recognized as held for sale at September 30, 2015.

The determination of fair value for businesses and portfolios of financing receivables involves significant judgments and assumptions. Development of estimates of fair values in this circumstance is complex and is dependent upon, among other factors, the nature of the potential sales transaction (for example, asset sale versus sale of legal entity), composition of assets and/or businesses in the disposal group, the comparability of the disposal group to market transactions, negotiations with third party purchasers etc. Such factors bear directly on the range of potential fair values and the selection of the best estimates. Key assumptions were developed based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction as of September 30, 2015.

We review all businesses and assets held for sale each reporting period to determine whether the existing carrying amounts are fully recoverable in comparison to estimated fair values.

NOTE 2. BUSINESSES HELD FOR SALE, FINANCING RECEIVABLES HELD FOR SALE AND DISCONTINUED OPERATIONS

NBCU

As previously disclosed, Comcast Corporation was obligated to share with us potential tax savings associated with its purchase of our interest in NBCU LLC. During the second quarter of 2015, we recognized $450 million of pre-tax income related to the settlement of this obligation.

ASSETS AND LIABILITIES OF BUSINESSES HELD FOR SALE

In the third quarter of 2015, we signed an agreement to sell our Intelligent Platforms Embedded Systems Products business within our Energy Management segment, with assets of $285 million and liabilities of $39 million to Veritas Capital for approximately $515 million. The transaction remains subject to customary closing conditions and regulatory approvals, and is targeted to close in 2015.

In the first quarter of 2015, we signed an agreement to sell our consumer finance business in Australia and New Zealand (ANZ Consumer Lending) for approximately 6,800 million Australian dollars and 1,400 million New Zealand dollars, respectively. On May 29, 2015, we sold a portion of the Australian business for gross proceeds of $671 million. As of September 30, 2015, ANZ Consumer Lending had assets and liabilities of $4,917 million and $260 million, respectively. The sale is targeted to close in 2015 with expected proceeds of approximately 6,000 million Australian dollars and 1,400 million New Zealand dollars. The transactions remain subject to customary closing conditions and regulatory approvals.

In the fourth quarter of 2014, we signed an agreement to sell our Signaling business within our Transportation segment, with assets of $296 million and liabilities of $138 million to Alstom for approximately $800 million, and our consumer finance business Budapest Bank, to Hungary's government. On June 29, 2015 we completed the sale of Budapest Bank for proceeds of $700 million. The Signaling business transaction is targeted to close in November 2015 in conjunction with the Alstom transaction.

In the third quarter of 2014, we signed an agreement to sell our Appliances business with assets of $2,801 million and liabilities of $1,576 million to Electrolux for approximately $3,300 million. On July 1, 2015, we were notified that the Department of Justice had initiated court proceedings seeking to enjoin the sale of Appliances to Electrolux. Electrolux and GE intend to defend the proposed transaction.

FINANCIAL INFORMATION FOR ASSETS AND LIABILITIES OF BUSINESSES HELD FOR SALE

(In millions)	September 30, 2015	December 31, 2014
Assets		
Cash and equivalents	$ 299	$ 676
Investment securities	-	448
Current receivables(a)	144	180
Inventories	760	588
Financing receivables – net	4,141	2,144
Property, plant, and equipment – net	1,187	1,015
Goodwill	976	539

Other intangible assets – net	273	170
Other	529	540
Assets of businesses held for sale	$ 8,309	$ 6,300
Liabilities		
Short-term borrowings	$ 27	441
Accounts payable(a)	636	510
Other current liabilities	388	348
Bank deposits	-	1,931
Deferred income taxes	(115)	(33)
Other	448	178
Liabilities of businesses held for sale	$ 1,384	$ 3,375

(a) Certain transactions at our Appliances and Signaling businesses are made on an arms-length basis with GECC, consisting primarily of GE customer receivables sold to GECC and GECC services for material procurement. These intercompany balances included within our held for sale businesses are reported in the GE and GECC columns of our financial statements, but are eliminated in deriving our consolidated financial statements.

GECC FINANCING RECEIVABLES HELD FOR SALE

In the first quarter of 2015, in connection with the GE Capital Exit Plan, we committed to sell all of our non-U.S. Consumer financing receivables. As a result, we transferred these financing receivables to held for sale and recognized a pre-tax provision for losses on financing receivables of $2,405 million ($2,197 million after tax) and wrote-off the associated balance of the allowance for loan losses of $2,859 million to reduce the carrying value of the financing receivables to the lower of cost or fair value, less cost to sell.

FINANCING RECEIVABLES HELD FOR SALE

(in millions)	September 30, 2015		December 31, 2014
Commercial			
CLL	$ 833		$ 357
Energy Financial Services	-		35
GE Capital Aviation Services (GECAS)	14		27
Other	105		-
Total Commercial	952		419
Consumer	22,713	(a)	359
Total financing receivables held for sale	$ 23,665		$ 778

(a) Over 30 days past due and nonaccrual financing receivables related to consumer financing receivables held for sale were $1,060 million and $634 million, respectively.

DISCONTINUED OPERATIONS

Discontinued operations primarily included most of our CLL business, our Real Estate business and our U.S. mortgage business (WMC). Results of operations, financial position and cash flows for these businesses are separately reported as discontinued operations for all periods presented.

FINANCIAL INFORMATION FOR DISCONTINUED OPERATIONS

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Operations				
Total revenues and other income (loss)	$2,756	$4,033	$9,536	$11,946
Earnings (loss) from discontinued operations before income taxes	$1,060	$666	$202	$2,061
Benefit (provision) for income taxes	(420)	40	30	(11)
Earnings (loss) from discontinued operations, net of taxes	$640	$706	$232	$2,050
Disposal				
Gain (loss) on disposal before income taxes	$(2,616)	$-	$(9,652)	$14
Benefit (provision) for income taxes	1,629	-	(916)	1
Gain (loss) on disposal, net of taxes	$(987)	$-	$(10,568)	$15

Earnings (loss) from discontinued operations, net of taxes(a)	$(347)	$706	$(10,336)	$2,065

(a) The sum of GE industrial earnings (loss) from discontinued operations, net of taxes, and GECC earnings (loss) from discontinued operations, net of taxes, is reported as GE industrial earnings (loss) from discontinued operations, net of taxes, on the Consolidated Statement of Earnings (Loss).

(In millions)	September 30, 2015	December 31, 2014
Assets		
Cash and equivalents	$ 11,226	$ 5,414
Investment securities	8,179	10,006
Financing receivables – net	11,622	114,561
Other receivables	1,479	2,192
Property, plant and equipment – net	12,084	18,051
Goodwill	9,867	13,569
Other intangible assets - net	44	301
Deferred income taxes	2,389	2,920
Financing receivables held for sale	65,390	3,116
Valuation allowance on disposal group classified as discontinued operations	(7,650)	-
Other	7,320	16,804
Assets of discontinued operations	$ 121,949	$ 186,934
Liabilities		
Short-term borrowings	$ 820	$ 1,125
Accounts payable	3,884	3,770
Other GE current liabilities	27	28
Non-recourse borrowings	8,072	10,569
Bank deposits	18,348	18,998
Long-term borrowings	316	1,182
All other liabilities	9,695	7,720
Deferred income taxes	2,607	5,402
Liabilities of discontinued operations	$ 43,768	$ 48,794

COMMERCIAL LENDING AND LEASING

In connection with the GE Capital Exit Plan, we announced the planned disposition of most of our CLL business and classified this portion of the business as discontinued operations. We closed certain of our CLL business dispositions for proceeds of $21,215 million for the three and nine months ended September 30, 2015. We expect to dispose of substantially all of the remaining CLL business in 2015 and 2016.

FINANCIAL INFORMATION FOR COMMERCIAL LENDING AND LEASING

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Operations				
Total revenues and other income (loss)	$2,691	$3,370	$8,664	$9,998

Interest	$(576)	$(762)	$(1,919)	$(2,324)
Operating and administrative	(900)	(942)	(2,905)	(2,732)
Depreciation and amortization	-	(988)	(1,768)	(2,923)
Provision for losses on financing receivables	13	(87)	(1,744)	(294)
Earnings (loss) from discontinued operations, before income taxes	1,228	591	328	1,725
Benefit (provision) for income taxes	(484)	(108)	(169)	(326)
Earnings (loss) from discontinued operations, net of taxes	$744	$483	$159	$1,399
Disposal				
Gain (loss) on disposal before income taxes	$(2,834)	$-	$(8,059)	$-
Benefit (provision) for income taxes	1,629	-	(298)	-
Gain (loss) on disposal, net of taxes	$(1,205)	$-	$(8,357)	$-
Earnings (loss) from discontinued operations, net of taxes(a)	$(461)	$483	$(8,198)	$1,399

(a) Earnings (loss) from discontinued operations attributable to the Company, before income taxes, was $(1,608) million and $589 million for the three months ended September 30, 2015 and 2014, respectively, and $(7,736) million and $1,710 million for the nine months ended September 30, 2015 and 2014, respectively.

REAL ESTATE

In connection with the GE Capital Exit Plan, we announced the planned disposition of our Real Estate business and classified the business as discontinued operations. We closed certain of our Real Estate business dispositions for proceeds of $12,991 million and $30,508 million for the three and nine months ended September 30, 2015, respectively. We expect to dispose of substantially all of the remaining Real Estate business by the end of 2015.

FINANCIAL INFORMATION FOR REAL ESTATE

(In millions)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Operations				
Total revenues and other income (loss)	$81	$698	$893	$1,992
Interest	$(64)	$(270)	$(437)	$(817)
Operating and administrative	(156)	(213)	(464)	(563)
Depreciation and amortization	-	(82)	(62)	(252)
Provision for losses on financing receivables	-	(12)	4	92
Earnings (loss) from discontinued operations, before income taxes	(139)	121	(65)	452
Benefit (provision) for income taxes	53	55	95	251
Earnings (loss) from discontinued operations, net of taxes	$(86)	$176	$30	$703
Disposal				
Gain (loss) on disposal before income taxes	$218	$-	$(1,593)	$-
Benefit (provision) for income taxes	-	-	(618)	-
Gain (loss) on disposal, net of taxes	$218	$-	$(2,211)	$-
Earnings (loss) from discontinued operations, net of taxes(a)	$132	$176	$(2,181)	$703

(a) Earnings (loss) from discontinued operations attributable to the Company, before income taxes, was $81 million and $120 million for the three months ended September 30, 2015 and 2014, respectively, and $(1,658) million and $452 million for the nine months ended September 30, 2015 and 2014, respectively.

2015 3Q FORM 10-Q PAGE 69

WMC

During the fourth quarter of 2007, we completed the sale of WMC, our U.S. mortgage business. WMC substantially discontinued all new loan originations by the second quarter of 2007, and is not a loan servicer. In connection with the sale, WMC retained certain representation and warranty obligations related to loans sold to third parties prior to the disposal of the business and contractual obligations to repurchase previously sold loans that had an early payment default. All claims received by WMC for early payment default have either been resolved or are no longer being pursued.

The remaining active claims have been brought by securitization trustees or administrators seeking recovery from WMC for alleged breaches of representations and warranties on mortgage loans that serve as collateral for residential mortgage-backed securities (RMBS). At September 30, 2015, such claims consisted of $3,468 million of individual claims generally submitted before the filing of a lawsuit (compared to $3,694 million at December 31, 2014) and $8,411 million of additional claims asserted against WMC in litigation without making a prior claim (Litigation Claims) (compared to $9,225 million at December 31, 2014). The total amount of these claims, $11,879 million, reflects the purchase price or unpaid principal balances of the loans at the time of purchase and does not give effect to pay downs or potential recoveries based upon the underlying collateral, which in many cases are substantial, nor to accrued interest or fees. As of September 30, 2015, these amounts do not include approximately $426 million of repurchase claims relating to alleged breaches of representations that are not in litigation and that are beyond the applicable statute of limitations. WMC believes that repurchase claims brought based upon representations and warranties made more than six years before WMC was notified of the claim would be disallowed in legal proceedings under applicable law and the June 11, 2015 decision of the New York Court of Appeals in ACE Securities Corp. v. DB Structured Products, Inc., on the statute of limitations period governing such claims.

Reserves related to repurchase claims made against WMC were $832 million at September 30, 2015, reflecting a net increase to reserves in the three months ended September 30, 2015 of $7 million due to incremental provisions net of settlements. The reserve estimate takes into account recent settlement activity and is based upon WMC's evaluation of the remaining exposures as a percentage of estimated lifetime mortgage loan losses within the pool of loans supporting each securitization for which timely claims have been asserted in litigation against WMC. Settlements in prior periods reduced WMC's exposure on claims asserted in certain securitizations and the claim amounts reported above give effect to these settlements.

ROLLFORWARD OF THE RESERVE

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Balance, beginning of period	$825	$549	$809	$800
Provision	28	40	46	142
Claim resolutions / rescissions	(21)	(1)	(23)	(354)
Balance, end of period	$832	$588	$832	$588

Given the significant litigation activity and WMC's continuing efforts to resolve the lawsuits involving claims made against WMC, it is difficult to assess whether future losses will be consistent with WMC's past experience. Adverse changes to WMC's assumptions supporting the reserve may result in an increase to these reserves. WMC estimates a range of reasonably possible loss from $0 to approximately $500 million over its recorded reserve at September 30, 2015. This estimate involves significant judgment and may not reflect the range of uncertainties and unpredictable outcomes inherent in litigation, including WMC litigation discussed in Legal Proceedings and potential changes in

WMC's legal strategy. This estimate excludes any possible loss associated with an adverse court decision on the applicable statute of limitations, as WMC is unable at this time to develop such a meaningful estimate.

At September 30, 2015, there were 15 lawsuits involving claims made against WMC arising from alleged breaches of representations and warranties on mortgage loans included in 14 securitizations. WMC reached a settlement in principle on one of these lawsuits in the third quarter, and the settlement became effective October 20, 2015. The adverse parties in these cases are securitization trustees or parties claiming to act on their behalf. Although the alleged claims for relief vary from case to case, the complaints and counterclaims in these actions generally assert claims for breach of contract, indemnification, and/or declaratory judgment, and seek specific performance (repurchase of defective mortgage loan) and/or money damages. Adverse court decisions, including in cases not involving WMC, could result in new claims and lawsuits on additional loans. However, WMC continues to believe that it has defenses to the claims asserted in litigation, including, for example, based on causation and materiality requirements and applicable statutes of limitations. It is not possible to predict the outcome or impact of these defenses and other factors, any of which could materially affect the amount of any loss ultimately incurred by WMC on these claims.

WMC has also received indemnification demands, nearly all of which are unspecified, from depositors/underwriters/sponsors of RMBS in connection with lawsuits brought by RMBS investors concerning alleged misrepresentations in the securitization offering documents to which WMC is not a party or, in two cases, involving mortgage loan repurchase claims made against RMBS sponsors. WMC believes that it has defenses to these demands.

To the extent WMC is required to repurchase loans, WMC's loss also would be affected by several factors, including pay downs, accrued interest and fees, and the value of the underlying collateral. The reserve and estimate of possible loss reflect judgment, based on currently available information, and a number of assumptions, including economic conditions, claim and settlement activity, pending and threatened litigation, court decisions regarding WMC's legal defenses, indemnification demands, government activity, and other variables in the mortgage industry. Actual losses arising from claims against WMC could exceed these amounts and additional claims and lawsuits could result if actual claim rates, governmental actions, litigation and indemnification activity, adverse court decisions, actual settlement rates or losses WMC incurs on repurchased loans differ from its assumptions.

FINANCIAL INFORMATION FOR WMC

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Total revenues and other income (loss)	$(22)	$(34)	$(26)	$(70)
Earnings (loss) from discontinued operations, net of taxes	$(21)	$(25)	$(37)	$(57)

NOTE 3. INVESTMENT SECURITIES

Substantially all of our investment securities are classified as available-for-sale. These comprise mainly investment-grade debt securities supporting obligations to annuitants and policyholders in our run-off insurance operations. We do not have any securities classified as held-to-maturity.

	September 30, 2015				December 31, 2014			
(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
GE								
Debt								
U.S. corporate	$ 3	$ -	$ -	$ 3	$ 12	$ -	$ -	$ 12
Corporate – non-U.S.	1	-	-	1	1	-	-	1
Equity								
Available-for-sale	95	14	(46)	64	69	4	(2)	71
Trading	-	-	-	-	-	-	-	-
	99	14	(46)	68	82	4	(2)	84
GECC								
Debt								
U.S. corporate	19,975	3,102	(178)	22,899	19,810	3,962	(69)	23,703
State and municipal	3,972	439	(71)	4,340	4,173	555	(53)	4,675
Residential mortgage-backed(a)	905	84	(5)	984	1,544	153	(5)	1,692
Commercial mortgage-backed	2,295	121	(12)	2,405	2,903	170	(10)	3,063
Asset-backed	107	1	(10)	97	304	8	(17)	295
Corporate – non-U.S.	769	101	(3)	867	908	109	(1)	1,016
Government – non-U.S.	1,094	158	(1)	1,252	1,560	152	(2)	1,710
U.S. government and federal agency	3,783	99	-	3,882	1,957	56	-	2,013
Equity								
Available-for-sale	113	16	(4)	125	109	24	(1)	132
Trading	19	-	-	19	21	-	-	21
	33,032	4,121	(285)	36,868	33,289	5,189	(158)	38,320
Eliminations	(4)	-	-	(4)	(4)	-	-	(4)
Total	$33,128	$ 4,136	$ (331)	$ 36,933	$33,367	$ 5,193	$ (160)	$ 38,400

(a) Substantially collateralized by U.S. mortgages. At September 30, 2015, $961 million related to securities issued by government-sponsored entities and $23 million related to securities of private-label issuers. Securities issued by private-label issuers are collateralized primarily by pools of individual direct mortgage loans of financial institutions.

The fair value of investment securities decreased to $36,933 million at September 30, 2015, from $38,400 million at December 31, 2014, primarily due to a decline in unrealized gains resulting from higher interest rates, and net sales at Trinity, primarily related to mortgage-backed securities, partially offset by net purchases of U.S. government and federal agency securities at Synchrony Financial.

ESTIMATED FAIR VALUE AND GROSS UNREALIZED LOSSES OF AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	In loss position for Less than 12 months		12 months or more		
(In millions)	Estimated fair value(a)	Gross unrealized losses(a)(b)	Estimated fair value	Gross unrealized losses(b)	
September 30, 2015					
Debt					
U.S. corporate	$2,161	$ (130)	$335	$ (48)	
State and municipal	544	(16)	155	(55)	
Residential mortgage-backed	175	(2)	77	(3)	
Commercial mortgage-backed	351	(8)	26	(4)	
Asset-backed	-	-	48	(10)	
Corporate – non-U.S.	41	(3)	3	-	
Government – non-U.S.	292	(1)	-	-	
U.S. government and federal agency	450	-	1	-	
Equity	75	(50)	-	-	
Total	$4,089	$ (210)	$645	$ (121)	(c)
December 31, 2014					
Debt					
U.S. corporate	$554	$ (16)	$836	$ (53)	
State and municipal	67	(1)	308	(52)	
Residential mortgage-backed	30	-	146	(5)	
Commercial mortgage-backed	165	(1)	204	(9)	
Asset-backed	9	-	42	(17)	
Corporate – non-U.S.	42	(1)	3	-	
Government – non-U.S.	677	(2)	14	-	
U.S. government and federal agency	705	-	1	-	
Equity	10	(3)	-	-	
Total	$2,259	$ (24)	$1,554	$ (136)	

(a) Includes the estimated fair value of and gross unrealized losses on equity securities held by GE. At September 30, 2015, the estimated fair value of and gross unrealized losses on equity securities were $37 million and $(46) million, respectively. At December 31, 2014, the estimated fair value of and gross unrealized losses on equity securities were $4 million and $(2) million, respectively.

(b) Included gross unrealized losses of $27 million related to securities that had other-than-temporary impairments previously recognized at September 30, 2015.

(c) Includes debt securities held to support obligations to holders of GICs all of which are considered to be investment-grade by the major rating agencies at September 30, 2015.

We regularly review investment securities for other-than-temporary impairment (OTTI) using both qualitative and quantitative criteria. For debt securities, our qualitative review considers our ability and intent to hold the security and the financial condition of and near-term prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. Our quantitative review considers whether there has been an adverse change in expected future cash flows. Unrealized losses are not indicative of the amount of credit loss that would be recognized and at September 30, 2015 are primarily due to increases in market yields subsequent to our purchase of the securities. We presently do not intend to sell the vast majority of our debt securities that are in an unrealized loss position and believe that it is not more likely than not that we will be required to sell the vast majority of these securities before anticipated recovery of our amortized cost. The methodologies and significant inputs used to measure the amount of credit loss for our investment securities during 2015 have not changed. For equity securities, we consider the duration and the severity of the unrealized loss. We believe that the unrealized loss associated with our equity securities will be recovered within the foreseeable future.

Our corporate debt portfolio comprises securities issued by public and private corporations in various industries, primarily in the U.S. Substantially all of our corporate debt securities are rated investment grade by the major rating agencies.

Our RMBS portfolio is collateralized primarily by pools of individual, direct mortgage loans, of which substantially all are in a senior position in the capital structure of the deals, not other structured products such as collateralized debt obligations. Of the total RMBS held at September 30, 2015, $961 million and $23 million related to agency and non-agency securities, respectively. Additionally, $58 million was related to residential subprime credit securities, primarily supporting obligations to annuitants and policyholders in our run-off insurance operations. Substantially all of the subprime exposure is related to securities backed by mortgage loans originated in 2005 and prior and are investment grade.

Our commercial mortgage-backed securities (CMBS) portfolio is collateralized by both diversified pools of mortgages that were originated for securitization (conduit CMBS) and pools of large loans backed by high-quality properties (large loan CMBS), about half of which were originated in 2008 and prior. The vast majority of the securities in our CMBS portfolio have investment-grade credit ratings.

PRE-TAX, OTHER-THAN-TEMPORARY IMPAIRMENTS
ON INVESTMENT SECURITIES

(In millions)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Total pre-tax, OTTI recognized	$ 2	$ 2	$ 34	$ 18
Pre-tax, OTTI recognized in AOCI	-	-	-	(4)
Pre-tax, OTTI recognized in earnings(a)	$ 2	$ 2	$ 34	$ 14

(a) Included pre-tax, other-than-temporary impairments recorded in earnings related to equity securities of $1 million and none in the three months ended September 30, 2015 and 2014, respectively and $1 million and $2 million in the nine months ended September 30, 2015 and 2014, respectively.

CHANGES IN CUMULATIVE CREDIT LOSS IMPAIRMENTS RECOGNIZED ON DEBT SECURITIES STILL HELD

(In millions)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Cumulative credit loss impairments recognized, beginning of period	$187	$423	$176	$474
Credit loss impairments recognized on securities not previously impaired	-	-	14	-
Incremental credit loss impairments recognized on securities previously impaired	-	2	-	4
Less credit loss impairments previously recognized on securities sold during the period or that we intend to sell	-	-	2	53
Cumulative credit loss impairments recognized, end of period	$187	$425	$188	$425

CONTRACTUAL MATURITIES OF INVESTMENT IN AVAILABLE-FOR-SALE DEBT SECURITIES (EXCLUDING MORTGAGE-BACKED AND ASSET-BACKED SECURITIES)

(In millions)	Amortized cost	Estimated fair value
Due		
Within one year	$ 2,166	$ 2,175
After one year through five years	4,656	4,868
After five years through ten years	4,854	5,217
After ten years	17,921	20,983

We expect actual maturities to differ from contractual maturities because borrowers have the right to call or prepay certain obligations.

GROSS REALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
GE				
Gains	$ 3	$ -	$ 4	$ 2
Losses, including impairments	-	-	(14)	-
Net	3	-	(10)	2
GECC				
Gains	21	1	122	37
Losses, including impairments	(6)	(5)	(41)	(18)
Net	15	(4)	81	19
Total	$ 18	$ (4)	$ 71	$ 21

Although we generally do not have the intent to sell any specific securities at the end of the period, in the ordinary course of managing our investment securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements and the funding of claims and obligations to policyholders. In some of our bank subsidiaries, we maintain a certain level of purchases and sales volume principally of non-U.S. government debt securities. In these situations, fair value approximates carrying value for these securities.

Proceeds from investment securities sales and early redemptions by issuers totaled $6,030 million and $624 million in the three months ended September 30, 2015 and 2014, respectively, principally from sales of U.S. government and federal agency securities in Trinity and Synchrony Financial and short-term government securities in our bank subsidiaries.

Proceeds from investment securities sales and early redemptions by issuers totaled $9,330 million and $2,000 million in the nine months ended September 30, 2015 and 2014, respectively, principally from sales of short-term government securities in our bank subsidiaries and sales of U.S. corporate and CMBS securities in our run-off insurance operations. In addition, proceeds from investment securities sales in the nine months ended September 30, 2015 included $6,486 million principally from sales of U.S. government and federal agency securities, CMBS and RMBS at Trinity and Synchrony Financial.

NOTE 4. INVENTORIES

(In millions)	September 30, 2015	December 31, 2014
GE		
Raw materials and work in process	$ 10,625	$ 9,820
Finished goods	7,862	7,126
Unbilled shipments	708	755
	19,195	17,701
Revaluation to LIFO	30	(62)
Total GE	19,225	17,639
GECC		
Finished goods	59	50
Total consolidated	$ 19,285	$ 17,689

NOTE 5. GECC FINANCING RECEIVABLES AND ALLOWANCE FOR LOSSES

The implementation of the GE Capital Exit Plan has caused significant reductions in our Consumer portfolio, as all of our non-U.S. consumer financing receivables have been reclassified to either financing receivables held for sale or assets of businesses held for sale. The transfer of financing receivables to financing receivables held for sale and assets of businesses held for sale totaled $29,016 million and $5,508 million in the nine months ended September 30, 2015, respectively. In addition, our Real Estate business and most of our CLL business have been classified as discontinued operations.

FINANCING RECEIVABLES, NET

(In millions)	September 30, 2015	December 31, 2014
Loans, net of deferred income	$ 82,196	$ 120,007
Investment in financing leases, net of deferred income	5,008	6,554
	87,204	126,561
Allowance for losses	(3,457)	(4,104)
Financing receivables – net	$ 83,748	$ 122,457

FINANCING RECEIVABLES BY PORTFOLIO AND ALLOWANCE FOR LOSSES

FINANCING RECEIVABLES

(In millions)	September 30, 2015		December 31, 2014
Commercial			
CLL	$ 13,341	(a)	$ 14,418
Energy Financial Services	2,443		2,580
GE Capital Aviation Services (GECAS)	7,394		8,263

Other	506		480
Total Commercial	23,684		25,741
Consumer	63,520	(b)	100,820
Total financing receivables	87,204		126,561
Allowance for losses	(3,457)	(b)	(4,104)
Total financing receivables – net	$ 83,748		$ 122,457

(a) Includes Healthcare Equipment Finance and Working Capital Solutions, which purchases GE customer receivables.
(b) Includes Synchrony Financial, our U.S. consumer business.

ALLOWANCE FOR LOSSES

(In millions)	Balance at January 1	Provision charged to operations(a)	Other (b)	Gross write-offs (a)(c)	Recoveries (c)	Balance at September 30
2015						
Commercial						
CLL	$ 21	$ 20	$ -	$ (15)	$ 6	$ 32
Energy Financial Services	26	16	-	(29)	1	14
GECAS	46	(11)	-	(1)	3	37
Other	-	15	-	(13)	-	2
Total Commercial	93	40	-	(58)	10	85
Consumer	4,011	4,596	(252)	(5,622)	639	3,372
Total	$ 4,104	$ 4,636	$ (252)	$ (5,680)	$ 649	$ 3,457
2014						
Commercial						
CLL	$ 17	$ 8	$ (1)	$ (11)	$ 7	$ 20
Energy Financial Services	8	13	-	(17)	2	6
GECAS	17	9	-	(11)	-	15
Other	2	-	(2)	-	-	-
Total Commercial	44	30	(3)	(39)	9	41
Consumer	3,981	2,663	(120)	(3,203)	869	4,190
Total	$ 4,025	$ 2,693	$ (123)	$ (3,242)	$ 878	$ 4,231

(a) Provision charged to operations included $2,405 million and gross write-offs included $2,859 million related to the effects of the 2015 reclassification of non-U.S. consumer financing receivables to financing receivables held for sale recorded at the lower of cost or fair value, less cost to sell.

(b) Other primarily includes the reclassification of financing receivables to assets of businesses held for sale and the effects of currency exchange.

(c) Net write-offs (gross write-offs less recoveries) in certain portfolios may exceed the beginning allowance for losses as a result of losses that are incurred subsequent to the beginning of the fiscal year due to information becoming available during the current year, which may identify further deterioration on existing financing receivables.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

(In millions)	September 30, 2015	December 31, 2014
Original cost	$ 87,332	$ 84,070
Less accumulated depreciation and amortization	(36,628)	(35,734)
Property, plant and equipment – net	$ 50,704	$ 48,336

Consolidated depreciation and amortization on property, plant and equipment was $1,278 million and $1,424 million in the three months ended September 30, 2015 and 2014, respectively, and $3,603 million and $3,820 million in the nine months ended September 30, 2015 and 2014, respectively.

NOTE 7. ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

ACQUISITIONS

Upon closing an acquisition, we estimate the fair values of assets and liabilities acquired and consolidate the acquisition as quickly as possible. Given the time it takes to obtain pertinent information to finalize the acquired company's balance sheet, then to adjust the acquired company's accounting policies, procedures, and books and records to our standards, it is often several quarters before we are able to finalize those initial fair value estimates. Accordingly, it is not uncommon for our initial estimates to be subsequently revised.

On January 30, 2015, we acquired Milestone Aviation Group (Milestone Aviation), a helicopter leasing business, for approximately $1,750 million, which is included in our GE Capital segment. The preliminary purchase price allocation resulted in goodwill of approximately $730 million and amortizable intangible assets of approximately $345 million. The allocation of the purchase price will be finalized upon completion of post-closing procedures.

During the second quarter of 2014, GE's offer to acquire the Thermal, Renewables and Grid businesses of Alstom for approximately €12,350 million (to be adjusted for the assumed net cash or liability at closing) was positively recommended by Alstom's board of directors. As part of the transaction, Alstom and the French Government signed a memorandum of understanding for the formation of three joint ventures in grid technology, renewable energy, and global nuclear and French steam power. Alstom will invest approximately €2,400 million in these joint ventures at the closing of the proposed transaction.

In the fourth quarter of 2014, Alstom completed its review of the proposed transaction with the works council and obtained approval from its shareholders. Also in the fourth quarter of 2014, GE and Alstom entered into an amendment to the original agreement where GE has agreed to pay Alstom a net amount of approximately €260 million of additional consideration at closing. In exchange for this funding, Alstom has agreed to extend the trademark licensing of the Alstom name from 5 years to 25 years as well as other contractual amendments.

In the second quarter of 2015, the European Commission indicated that it had competition concerns with the proposed transaction. In response, GE proposed remedies to address the concerns of the Commission and the U.S. Department of Justice while preserving the strategic and economic rationale of the proposed transaction. On September 8, 2015, the European Commission and the Department of Justice accepted GE's proposal and approved the transaction. In order to obtain approval, GE has pledged to sell certain of Alstom's gas-turbine assets and its Power Systems Mfg. subsidiary to Ansaldo Energia SpA after the close of the transaction for approximately €120 million. As a result of final negotiations, Alstom has agreed to contribute financially to the remedies through a €300 million reduction in the purchase price of the transaction. Further, GE and Alstom agreed to other purchase price amendments that resulted in a net increase of consideration of approximately €45 million and a reduction in the trademark licensing period of the Alstom name to five years. The transaction is targeted to close in November 2015.

The acquisition and alliances with Alstom will impact our Power & Water and Energy Management segments. The impact of acquired businesses on individual segments will be affected by a number of variables, including operating performance, purchase accounting impacts and expected synergies. In addition, due to the amount of time between signing and closing, the operations of the businesses may fluctuate and impact the overall valuation of the acquired businesses at the time of close and, accordingly, may affect the amounts assigned to the assets and liabilities recorded in accordance with purchase accounting.

GOODWILL

CHANGES IN GOODWILL BALANCES

(In millions)	Balance at January 1, 2015	Acquisitions	Dispositions, currency exchange and other	Balance at September 30, 2015
Power & Water	$ 8,754	$ 31	$ (136)	$ 8,649
Oil & Gas	10,572	-	(322)	10,250
Energy Management	4,570	-	(477)	4,093
Aviation	8,952	-	(297)	8,655
Healthcare	17,532	8	(86)	17,454
Transportation	887	-	(39)	848
Appliances & Lighting	226	-	(9)	217
GE Capital	11,456	729	(725)	11,460
Corporate	34	-	1	35
Total	$ 62,983	$ 768	$ (2,090)	$ 61,660

Goodwill balances decreased by $1,323 million in the nine months ended September 30, 2015, primarily as a result of the currency exchange effects of the stronger U.S dollar, the reclassification of goodwill associated with ANZ Consumer Lending to assets of businesses held for sale and business dispositions, partially offset by the acquisition of Milestone Aviation.

We test goodwill for impairment annually in the third quarter of each year using data as of July 1 of that year. The impairment test consists of two steps: in step one, the carrying value of the reporting unit is compared with its fair value; in step two, which is applied when the carrying value is more than its fair value, the amount of goodwill impairment, if any, is derived by deducting the fair value of the reporting unit's assets and liabilities from the fair value of its equity, and comparing that amount with the carrying amount of goodwill. We determined fair values for each of the reporting units using the market approach, when available and appropriate, or the income approach, or a combination of both. We assess the valuation methodology based upon the relevance and availability of the data at the time we perform the valuation. If multiple valuation methodologies are used, the results are weighted appropriately.

Valuations using the market approach are derived from metrics of publicly traded companies or historically completed transactions of comparable businesses. The selection of comparable businesses is based on the markets in which the reporting units operate giving consideration to risk profiles, size, geography, and diversity of products and services. A market approach is limited to reporting units for which there are publicly traded companies that have the characteristics similar to our businesses.

Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each business. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the cost of equity financing. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. Discount rates used in our reporting unit valuations ranged from 10.0% to 15.5%.

During the third quarter of 2015, we performed our annual impairment test of goodwill for all of our reporting units. Based on the results of our step one testing, the fair values of each of the GE reporting units exceeded their carrying values; therefore, the second step of the impairment test was not required to be performed for any of our reporting units and no goodwill impairment was recognized.

While all of our reporting units passed step one of our annual impairment testing in 2015, we identified one reporting unit for which the fair value was not substantially in excess of its carrying value. Primarily due to the sharp decline experienced in oil and gas prices and the prospect of a continuation of prevailing oil and gas prices, the fair value of our Energy Financial Services reporting unit, within our GE Capital operating segment, has been impacted and is in excess of its carrying value by approximately 13%. The goodwill associated with our Energy Financial Services reporting unit was $1,386 million at September 30, 2015, representing approximately 2% of our total goodwill. Our Oil & Gas business has also experienced declines in orders, project commencement delays and pricing pressures, which affect the fair value of our Oil & Gas reporting units. While the goodwill of these reporting units is not currently impaired, we will continue to monitor the oil and gas industry and the impact it may have on these businesses. As of September 30, 2015, we believe that the goodwill is recoverable for all of the reporting units; however, there can be no assurances that the goodwill will not be impaired in future periods.

In 2014, we identified one reporting unit for which the fair value was not substantially in excess of its carrying value. Within our Energy Management operating segment, the Power Conversion reporting unit was determined to have a fair value in excess of its carrying value by approximately 10%. In the current year, the fair value of the Power Conversion reporting unit significantly exceeded its carry value. The increase in fair value over its carry value was driven primarily by a stabilization of the business and cost cutting measures. In addition, our carry value has decreased due to currency effects of a stronger U.S. dollar.

Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. It is reasonably possible that the judgments and estimates described above could change in future periods.

OTHER INTANGIBLE ASSETS

OTHER INTANGIBLE ASSETS - NET

(In millions)	September 30, 2015	December 31, 2014
Intangible assets subject to amortization	$13,513	$ 13,725
Indefinite-lived intangible assets(a)	105	130
Total	$13,618	$ 13,855

(a) Indefinite-lived intangible assets principally comprise trademarks and in-process research and development.

INTANGIBLE ASSETS SUBJECT TO AMORTIZATION

	September 30, 2015			December 31, 2014		
(In millions)	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related	$8,217	$ (2,426)	$5,791	$8,064	$ (2,261)	$5,803
Patents and technology	6,434	(3,056)	3,378	6,694	(2,900)	3,794
Capitalized software	7,635	(4,404)	3,231	7,349	(4,178)	3,171
Trademarks	1,126	(272)	854	1,151	(263)	888
Lease valuations	107	(16)	92	-	-	-
Present value of future profits(a)	643	(643)	-	614	(614)	-

All other	351	(181)	170	203	(134)	69
Total	$24,513	$ (10,998)	$13,513	$24,075	$ (10,350)	$13,725

(a) Balances at September 30, 2015 and December 31, 2014 reflect adjustments of $272 million and $293 million, respectively, to the present value of future profits in our run-off insurance operation to reflect the effects that would have been recognized had the related unrealized investment securities holding gains and losses actually been realized.

Intangible assets subject to amortization decreased by $212 million in the nine months ended September 30, 2015, primarily as a result of amortization and the currency exchange effects of the stronger U.S. dollar, partially offset by the acquisition of Milestone Aviation and the capitalization of new software across several business platforms.

Consolidated amortization expense was $437 million and $424 million in the three months ended September 30, 2015 and 2014, respectively, and $1,295 million and $1,205 million the nine months ended September 30, 2015 and 2014, respectively.

NOTE 8. BORROWINGS AND BANK DEPOSITS

(In millions)	September 30, 2015	December 31, 2014
Short-term borrowings		
GE		
Commercial paper	$ 1,000	$ 500
Payable to banks	472	343
Current portion of long-term borrowings	2,092	2,068
Other	1,197	961
Total GE short-term borrowings	4,761	3,872
GECC		
Commercial paper(a)		
U.S.	9,811	22,019
Non-U.S.	3,103	2,993
Current portion of long-term borrowings(a)(b)(c)	29,679	36,995
GE Interest Plus notes(d)	-	5,467
Other(c)	287	231
Total GECC short-term borrowings	42,880	67,705
Eliminations	(1,146)	(863)
Total short-term borrowings	$ 46,495	$ 70,714
Long-term borrowings		
GE		
Senior notes	$ 15,510	$ 11,945
Payable to banks	27	5
Other	358	518
Total GE long-term borrowings	15,895	12,468
GECC		
Senior unsecured notes(a)(b)(e)	144,935	162,194
Subordinated notes(a)	4,715	4,804
Subordinated debentures(a)(f)	6,782	7,085
Other(a)(c)(g)	7,751	12,676
Total GECC long-term borrowings	164,183	186,759
Eliminations	(67)	(45)
Total long-term borrowings	$ 180,011	$ 199,182
Non-recourse borrowings of consolidated securitization entities(h)	$ 16,225	$ 19,369
Bank deposits(i)	$ 48,656	$ 43,841
Total borrowings and bank deposits	$ 291,387	$ 333,106

(a) On April 10, 2015, GE announced it would provide a full and unconditional guarantee on the payment of the principal and interest on all tradable senior and subordinated outstanding long-term debt securities and all commercial paper issued or guaranteed by GECC. Short-term borrowings included $12,914 million of commercial paper and $28,373 million of the current portion of long-term borrowings. Long-term borrowings included $131,230 million of senior unsecured notes, $3,971 million of subordinated notes, $6,782 million of subordinated debentures, and $400 million of other.

(b) Included $431 million and $439 million of obligations to holders of GICs at September 30, 2015 and December 31, 2014, respectively. These obligations included conditions under which certain GIC holders could require immediate repayment of their investment should the long-term credit ratings of GECC fall below AA-/Aa3. The remaining outstanding GICs will continue to be subject to their scheduled maturities and individual terms, which may include provisions permitting redemption upon a downgrade of one or more of GECC's ratings, among other things.

(c) Included $4,969 million and $4,835 million of funding secured by real estate, aircraft and other collateral at September 30, 2015 and December 31, 2014, respectively, of which $1,216 million and $1,183 million is non-recourse to GECC at September 30, 2015 and December 31, 2014, respectively.

(d) Entirely variable denomination floating-rate demand notes. The GE Interest Plus program was closed effective August 31, 2015.

(e) Included $5,589 million and $3,594 million related to Synchrony Financial at September 30, 2015 and December 31, 2014, respectively.

(f) Subordinated debentures receive rating agency equity credit.

(g) Included $4,651 million and $8,245 million related to Synchrony Financial at September 30, 2015 and December 31, 2014, respectively.

(h) Included $1,934 million and $3,377 million of current portion of long-term borrowings at September 30, 2015 and December 31, 2014, respectively. See Note 16.

(i) Included $8,108 million and $8,905 million of deposits in non-U.S. banks at September 30, 2015 and December 31, 2014, respectively, and $15,990 million and $14,500 million of certificates of deposits with maturities greater than one year at September 30, 2015 and December 31, 2014, respectively.

On May 28, 2015, GE issued €3,150 million senior unsecured debt, composed of €650 million of Floating Rate Notes due 2020, €1,250 million of 1.250% Notes due 2023 and €1,250 million of 1.875% Notes due 2027. On October 9, 2015, $2.0 billion of long-term debt issued by GE matured.

NOTE 9. POSTRETIREMENT BENEFIT PLANS

We sponsor a number of pension and retiree health and life insurance benefit plans. Principal pension plans are the GE Pension Plan and the GE Supplementary Pension Plan. Principal retiree benefit plans provide health and life insurance benefits to certain eligible participants and these participants share in the cost of the healthcare benefits. Other pension plans include the U.S. and non-U.S. pension plans with pension assets or obligations greater than $50 million. Smaller pension plans and other retiree benefit plans are not material individually or in the aggregate.

EFFECT ON OPERATIONS OF PENSION PLANS

	Principal pension plans						
	Three months ended September 30			Nine months ended September 30			
(In millions)	2015	2014		2015		2014	
Service cost for benefits earned	$348	$304		$1,076		$921	
Prior service cost amortization	51	54		154		162	
Expected return on plan assets	(826)	(792)		(2,478)		(2,393)	
Interest cost on benefit obligations	696	687		2,087		2,060	
Net actuarial loss amortization	823	642		2,468		1,925	
Curtailment loss	-	65	(a)	71	(b)	65	(a)
Pension plans cost	$1,092	$960		$3,378		$2,740	

(a) Curtailment loss resulting from our agreement with Electrolux to sell the GE Appliances business.
(b) Curtailment loss resulting from GE Capital Exit Plan.

	Other pension plans			
	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Service cost for benefits earned	$99	$91	$299	$310
Prior service cost amortization	1	1	1	4
Expected return on plan assets	(211)	(200)	(625)	(596)
Interest cost on benefit obligations	133	149	396	443
Net actuarial loss amortization	72	50	217	149
Pension plans cost	$94	$91	$288	$310

EFFECT ON OPERATIONS OF PRINCIPAL RETIREE HEALTH AND LIFE INSURANCE PLANS

	Principal retiree health and life insurance plans			
	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014

Service cost for benefits earned	$27	$41		$119		$125	
Prior service cost (gain) amortization	(38)	88		29		285	
Expected return on plan assets	(12)	(12)		(36)		(37)	
Interest cost on benefit obligations	67	106		268		326	
Net actuarial gain amortization	(14)	(38)		(11)		(124)	
Curtailment loss (gain), net	-	48	(a)	(192)	(b)(c)	48	(a)
Retiree benefit plans cost	$30	$233		$177		$623	

(a) Curtailment loss resulting from our agreement with Electrolux to sell the GE Appliances business.
(b) Curtailment loss resulting from the GE Capital Exit Plan.
(c) Curtailment gain resulting from a life insurance plan amendment.
2015 3Q FORM 10-Q PAGE 82

NOTE 10. INCOME TAXES

THE GE CAPITAL EXIT PLAN

In conjunction with the GE Capital Exit Plan, GECC will significantly reduce its non-U.S. assets while continuing to operate appropriately capitalized non-U.S. businesses with substantial assets related to GECC's vertical financing businesses, Energy Financial Services, GECAS and Healthcare Equipment Finance. As a result of the GE Capital Exit Plan, GECC recognized tax expense of $6,209 million in the nine months ended September 30, 2015. This consisted of tax expense of $3,548 million in the nine months ended September 30, 2015, related to expected repatriation of excess foreign cash in the amount of approximately $36 billion including approximately $10 billion of foreign earnings and the write-off of deferred tax assets of $2,661 million in the nine months ended September 30, 2015, that will no longer be supported under this plan.

The expected repatriation of cash includes approximately $10 billion of foreign earnings that, prior to the approval of the GE Capital Exit Plan, were considered indefinitely reinvested in GECC's international operations. GECC's indefinitely reinvested earnings will also be reduced by charges recognized in connection with the disposition of international assets. The remainder of the indefinitely reinvested earnings will continue to be reinvested in the significant international base of assets that will remain after the GE Capital Exit Plan is fully executed. The write-off of deferred tax assets largely relate to our Treasury operations in Ireland where the tax benefits will no longer be apparent to be realized upon implementation of the GE Capital Exit Plan.

UNRECOGNIZED TAX BENEFITS

UNRECOGNIZED TAX BENEFITS

(In millions)	September 30, 2015	December 31, 2014
Unrecognized tax benefits	$5,447	$ 5,619
Portion that, if recognized, would reduce tax expense and effective tax rate(a)	3,961	4,059
Accrued interest on unrecognized tax benefits	782	807
Accrued penalties on unrecognized tax benefits	97	103
Reasonably possible reduction to the balance of unrecognized tax benefits in succeeding 12 months	0-900	0-900
Portion that, if recognized, would reduce tax expense and effective tax rate(a)	0-350	0-300

(a) Some portion of such reduction may be reported as discontinued operations.

The Internal Revenue Service (IRS) is currently auditing our consolidated U.S. income tax returns for 2010-2011. In addition, certain other U.S. tax deficiency issues and refund claims for previous years are still unresolved. The IRS has disallowed the tax loss on our 2003 disposition of ERC Life Reinsurance Corporation. We have contested the disallowance of this loss. It is reasonably possible that the unresolved items could be resolved during the next 12 months, which could result in a decrease in our balance of unrecognized tax benefits – that is, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

NOTE 11. SHAREOWNERS' EQUITY

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Investment securities				
Beginning balance	$564	$1,040	$1,013	$307
Other comprehensive income (loss) (OCI) before reclassifications – net of deferred taxes of $14, $(146), $(196) and $310	22	(265)	(382)	484
Reclassifications from OCI – net of deferred taxes of $(20), $(15), $(45) and $(19)	(26)	(19)	(70)	(34)
Other comprehensive income (loss)(a)	(3)	(284)	(452)	450
Less OCI attributable to noncontrolling interests	-	1	-	2
Ending balance	$561	$755	$561	$755
Currency translation adjustments (CTA)				
Beginning balance	$(5,914)	$61	$(2,427)	$126
OCI before reclassifications – net of deferred taxes of $(185), $198, $1,158 and $314	(108)	(1,575)	(3,936)	(1,674)
Reclassifications from OCI – net of deferred taxes of $(628), $1, $(779) and $124	733	(15)	1,039	25
Other comprehensive income (loss)(a)	624	(1,590)	(2,896)	(1,649)
Less OCI attributable to noncontrolling interests	(8)	(11)	(43)	(5)
Ending balance	$(5,281)	$(1,518)	$(5,281)	$(1,518)
Cash flow hedges				
Beginning balance	$(140)	$(176)	$(180)	$(257)
OCI before reclassifications – net of deferred taxes of $(28), $(44), $(24) and $(5)	(133)	(329)	(626)	(421)
Reclassifications from OCI – net of deferred taxes of $11, $30, $59 and $39	98	384	632	557
Other comprehensive income (loss)(a)	(35)	55	6	136
Less OCI attributable to noncontrolling interests	-	-	-	-
Ending balance	$(174)	$(121)	$(174)	$(121)
Benefit plans				
Beginning balance	$(12,716)	$(8,083)	$(16,578)	$(9,296)
Prior service credit (costs) - net of deferred taxes of $0, $212, $1,194 and $212	-	374	2,090	374
Net actuarial gain (loss) – net of deferred taxes of $0, $(58), $269 and $(26)	43	(107)	602	59
Net curtailment/settlement - net of deferred taxes of $0, $41, $(44) and $41	-	72	(77)	72
Prior service cost amortization – net of deferred taxes of $17, $62, $92 and $192	-	85	101	273
Net actuarial loss amortization – net of deferred taxes of $297, $213, $902 and $637	584	435	1,771	1,294

Other comprehensive income (loss)(a)	627	859	4,486	2,072
Less OCI attributable to noncontrolling interests	-	2	(2)	2
Ending balance	$(12,089)	$(7,226)	$(12,089)	$(7,226)
Accumulated other comprehensive income (loss) at September 30	$(16,983)	$(8,110)	$(16,983)	$(8,110)

(a) Total other comprehensive income (loss) was $1,214 million and $(960) million in the three months ended September 30, 2015 and 2014, respectively and $1,144 million and $1,009 million in the nine months ended September 30, 2015 and 2014, respectively.

2015 3Q FORM 10-Q   PAGE 84

RECLASSIFICATION OUT OF AOCI

(In millions)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014	Statement of Earnings Caption
Available-for-sale securities					
Realized gains (losses) on sale/impairment of securities	$45	$34	$116	$53	Other income(a)
	(20)	(15)	(45)	(19)	Benefit (provision) for income taxes(b)
	$26	$19	$70	$34	Net of tax
Currency translation adjustments					
Gains (losses) on dispositions	$(104)	$14	$(260)	$(149)	Costs and expenses(c)
	(628)	1	(779)	124	Benefit (provision) for income taxes(d)
	$(733)	$15	$(1,039)	$(25)	Net of tax
Cash flow hedges					
Gains (losses) on interest rate derivatives	$(39)	$(53)	$(100)	$(182)	Interest and other financial charges
Foreign exchange contracts	(72)	(381)	(600)	(400)	(e)
Other	2	20	9	(14)	(f)
	(109)	(414)	(691)	(596)	Total before tax
	11	30	59	39	Benefit (provision) for income taxes
	$(98)	$(384)	$(632)	$(557)	Net of tax
Benefit plan items					
Curtailment gain (loss)	$-	$(113)	$121	$(113)	(g)
Amortization of prior service costs	(17)	(147)	(193)	(465)	(g)
Amortization of actuarial gains (losses)	(881)	(648)	(2,673)	(1,931)	(g)
	(898)	(908)	(2,745)	(2,509)	Total before tax
	314	316	950	870	Benefit (provision) for income taxes
	$(584)	$(592)	$(1,795)	$(1,639)	Net of tax
Total reclassification adjustments	$(1,389)	$(942)	$(3,396)	$(2,187)	Net of tax

(a) Included $28 million and $40 million for the three months ended September 30, 2015 and 2014, and $45 million and $34 million for the nine months ended September 30, 2015 and 2014, respectively in earnings (loss) from discontinued operations, net of taxes.

(b) Included $(15) million and $(15) million for the three months ended September 30, 2015 and 2014, and $(21) million and $(13) million for the nine months ended September 30, 2015 and 2014, respectively in earnings (loss) from discontinued operations, net of taxes.

(c) Included $(104) million and $1 million for the three months ended September 30, 2015 and 2014, and $(102) million and $(128) million for the nine months ended September 30, 2015 and 2014, respectively in earnings (loss) from discontinued operations, net of taxes.

(d) Included $(628) million and an insignificant amount for the three months ended September 30, 2015 and 2014, and $(764) million and $123 million for the nine months ended September 30, 2015 and 2014, respectively in earnings (loss) from discontinued operations, net of taxes.

(e) Included $(47) million and $(357) million in GECC revenues from services and $(25) million and $(24) million in interest and other financial charges in the three months ended September 30, 2015 and 2014, respectively and $(587) million and $(368) million in GECC revenues from services and $(13) million and $(32) million in interest and other financial charges in the nine months ended September 30, 2015 and 2014, respectively.

(f) Primarily recorded in costs and expenses.

(g) Curtailment gain (loss), amortization of prior service costs and actuarial gains and losses out of AOCI are included in the computation of net periodic pension costs. See Note 9 for further information.

NONCONTROLLING INTERESTS

Noncontrolling interests in equity of consolidated affiliates includes common shares in consolidated affiliates and preferred stock issued by our affiliates.

GECC preferred stock is presented as noncontrolling interests in the GE consolidated Statement of Financial Position. GECC preferred stock dividends are presented as noncontrolling interests in the GE consolidated Statement of Earnings. The balance is summarized as follows.

(In millions)	September 30, 2015	December 31, 2014
GECC preferred stock	$4,950	$ 4,950
Synchrony Financial	2,790	2,531
Other noncontrolling interests in consolidated affiliates(a)	1,048	1,193
Total	$8,788	$ 8,674

(a) Consisted of a number of individually insignificant noncontrolling interests in partnerships and consolidated affiliates.

CHANGES TO NONCONTROLLING INTERESTS

	Three months ended September 30		Nine months ended September 30	
(In millions)	2015	2014	2015	2014
Beginning balance	$8,776	$6,054	$8,674	$6,217
Net earnings (loss)	39	(21)	232	(2)
GECC preferred stock dividend	-	-	(161)	(161)
Dividends	(18)	(20)	(36)	(55)
Dispositions	(3)	(6)	(9)	(98)
Synchrony Financial IPO	-	2,393	-	2,393
Other (including AOCI)(a)	(6)	113	88	219
Ending balance	$8,788	$8,513	$8,788	$8,513

(a) Includes research & development partner funding arrangements, acquisitions and eliminations.

OTHER

GE's authorized common stock consists of 13,200,000,000 shares having a par value of $0.06 each.

GECC did not pay any quarterly dividends or special dividends to GE in the three months ended September 30, 2015. GECC paid quarterly dividends of $472 million and special dividends of $333 million to GE in the three months ended September 30, 2014. GECC paid quarterly dividends of $450 million and did not pay any special dividends to GE in the nine months ended, September 30, 2015. GECC paid quarterly dividends of $1,555 million and special dividends of $666 million to GE in the nine months ended September 30, 2014.

NOTE 12. GECC REVENUES FROM SERVICES

	Three months ended	Nine months ended September

(In millions)	September 30 2015	2014	30 2015	2014
Interest on loans	$3,010	$3,128	$8,902	$9,194
Equipment leased to others	1,179	1,111	3,519	3,400
Fees	839	852	2,426	2,466
Investment income(a)	470	495	1,445	1,506
Associated companies	158	189	893	796
Premiums earned by insurance activities	353	397	1,062	1,130
Financing leases	84	100	275	331
Other items(b)	198	84	(1,133)	311
	6,290	6,356	17,388	19,134
Eliminations	(306)	(397)	(1,015)	(1,170)
Total	$5,984	$5,959	$16,373	$17,964

(a) Included net other-than-temporary impairments on investment securities of $2 million and $2 million in the three months ended September 30, 2015 and 2014, respectively, and $21 million and $14 million in the nine months ended September 30, 2015 and 2014, respectively.

(b) During the nine months ended September 30, 2015, other items primarily included impairments related to equity method investments ($1,392 million) in connection with the GE Capital Exit Plan.

NOTE 13. EARNINGS PER SHARE INFORMATION

	Three months ended September 30			
	2015		2014	
(In millions; per-share amounts in dollars)	Diluted	Basic	Diluted	Basic
Amounts attributable to the Company:				
Consolidated				
Earnings (loss) from continuing operations attributable to common shareowners for per-share calculation(a)(b)	$2,849	$2,849	$2,826	$2,826
Earnings (loss) from discontinued operations for per-share calculation(a)(b)	(346)	(346)	706	706
Net earnings (loss) attributable to GE common shareowners for per-share calculation(a)(b)	$2,503	$2,502	$3,532	$3,532
Average equivalent shares				
Shares of GE common stock outstanding	10,103	10,103	10,039	10,039
Employee compensation-related shares (including stock options)	70	-	80	-
Total average equivalent shares	10,173	10,103	10,119	10,039
Per-share amounts				
Earnings (loss) from continuing operations	$0.28	$0.28	$0.28	$0.28
Earnings (loss) from discontinued operations	(0.03)	(0.03)	0.07	0.07
Net earnings (loss)	0.25	0.25	0.35	0.35

	Nine months ended September 30			
	2015		2014	
(In millions; per-share amounts in dollars)	Diluted	Basic	Diluted	Basic
Amounts attributable to the Company:				
Consolidated				
Earnings (loss) from continuing operations attributable to common shareowners for per-share calculation(a)(b)	$(2,100)	$(2,100)	$8,005	$8,004
Earnings (loss) from discontinued operations for per-share calculation(a)(b)	(10,345)	(10,345)	2,064	2,064
Net earnings (loss) attributable to GE common shareowners for per-share calculation(a)(b)	$(12,436)	$(12,436)	$10,068	$10,067
Average equivalent shares				
Shares of GE common stock outstanding	10,085	10,085	10,042	10,042
Employee compensation-related shares (including stock options)	-	-	79	-
Total average equivalent shares	10,085	10,085	10,121	10,042
Per-share amounts				
Earnings (loss) from continuing operations	$(0.21)	$(0.21)	$0.79	$0.80
Earnings (loss) from discontinued operations	(1.03)	(1.03)	0.20	0.21
Net earnings (loss)	(1.23)	(1.23)	0.99	1.00

(a) Our unvested restricted stock unit awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities. For the nine months period ended September 30, 2015, pursuant to the two-class method, as a result of the net loss from continuing operations, losses were not allocated to the participating securities. For the three months ended September 30, 2015 and 2014; and the nine months period ended September 30, 2014, participating securities are included in the computation of earnings (loss) per share pursuant to the two-class method and the application of this treatment had an insignificant effect.

(b) Included an insignificant amount of dividend equivalents in each of the periods presented.

For the three months ended September 30, 2015 and 2014, approximately 89 million and 88 million, respectively, of outstanding stock awards were not included in the computation of diluted earnings (loss) per share because their effect was antidilutive. As a result of the loss from continuing operations for the nine months ended September 30, 2015, outstanding stock awards of approximately 398 million, were not included in the computation of diluted earnings (loss) per share because their effect was antidilutive. For the nine months ended September 30, 2014, approximately 104 million of outstanding stock awards were not included in the computation of diluted earnings (loss) per share because their effect was antidilutive.

Earnings (loss) per share amounts are computed independently, as a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per share amounts for net earnings (loss).

NOTE 14. FAIR VALUE MEASUREMENTS

RECURRING FAIR VALUE MEASUREMENTS

Our assets and liabilities measured at fair value on a recurring basis include investment securities primarily supporting obligations to annuitants and policyholders in our run-off insurance operations.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

(In millions)	Level 1 (a)	Level 2 (a)	Level 3	Netting adjustment (b)	Net balance
September 30, 2015					
Assets					
Investment securities					
Debt					
U.S. corporate	$ -	$ 19,853	$ 3,050	$ -	$ 22,902
State and municipal	-	4,259	81	-	4,340
Residential mortgage-backed	-	981	2	-	984
Commercial mortgage-backed	-	2,403	1	-	2,405
Asset-backed	-	59	38	-	97
Corporate – non-U.S.	6	579	283	-	868
Government – non-U.S.	14	1,238	-	-	1,252
U.S. government and federal agency	-	3,573	309	-	3,882
Equity					
Available-for-sale	159	15	10	-	185
Trading	19	-	-	-	19
Derivatives(c)	-	8,545	79	(6,620)	2,003
Other (d)	-	-	233	-	233
Total	$ 197	$ 41,505	$ 4,086	$ (6,620)	$ 39,168
Liabilities					
Derivatives	$ -	$ 5,156	$ 5	$ (4,658)	$ 503
Other(e)	-	1,070	-	-	1,070
Total	$ -	$ 6,227	$ 5	$ (4,658)	$ 1,573
December 31, 2014					
Assets					
Investment securities					
Debt					
U.S. corporate	$ -	$ 20,659	$ 3,056	$ -	$ 23,715
State and municipal	-	4,560	115	-	4,675
Residential mortgage-backed	-	1,676	16	-	1,692
Commercial mortgage-backed	-	3,054	9	-	3,063
Asset-backed	-	172	123	-	295
Corporate – non-U.S.	-	680	337	-	1,017
Government – non-U.S.	-	1,708	2	-	1,710
U.S. government and federal agency	-	1,747	266	-	2,013
Equity				-	
Available-for-sale	171	19	9	-	199
Trading	21	-	-	-	21

Derivatives(c)	-	9,957	40	(7,584)	2,413
Other (d)	-	-	277	-	277
Total	$192	$44,232	$4,250	$ (7,584)	$41,090
Liabilities					
Derivatives	$-	$4,890	$13	$ (4,363)	$540
Other(e)	-	1,178	-	-	1,178
Total	$-	$6,068	$13	$ (4,363)	$1,718

(a) There were no securities transferred between Level 1 and Level 2 in the nine months ended September 30, 2015. There were $487 million of Government – non-U.S. and $13 million of Corporate – non-U.S. available-for-sale debt securities transferred from Level 1 to Level 2 in the twelve months ended December 31, 2014 primarily attributable to changes in market observable data.

(b) The netting of derivative receivables and payables (including the effects of any collateral posted or received) is permitted when a legally enforceable master netting agreement exists.

(c) The fair value of derivatives includes an adjustment for non-performance risk. The cumulative adjustment was a gain (loss) of $1 million and $16 million at September 30, 2015 and December 31, 2014, respectively. See Note 15 for additional information on the composition of our derivative portfolio.

(d) Includes private equity investments.

(e) Primarily represented the liability associated with certain of our deferred incentive compensation plans.

LEVEL 3 INSTRUMENTS

The majority of our Level 3 balances consist of investment securities classified as available-for-sale with changes in fair value recorded in shareowners' equity.

CHANGES IN LEVEL 3 INSTRUMENTS FOR THE THREE MONTHS ENDED

(In millions)	Balance at July 1	Net realized/ unrealized gains (losses) included in earnings(a)	Net realized/ unrealized gains (losses) included in AOCI	Purchases	Sales	Settlements	Transfers into Level 3(b)	Transfers out of Level 3(b)	Balance at September 30	Net change in unrealized gains (losses) relating to instruments still held at September 30(c)
2015										
Investment securities										
Debt										
U.S. corporate	$ 3,024	$ 5	$ (7)	$ 74	$ (29)	$ (37)	$ 35	$ (15)	$ 3,050	$ -
State and municipal	101	-	1	-	-	(5)	-	(17)	81	-
RMBS	2	-	-	-	-	(1)	-	-	2	-
CMBS	2	-	-	-	-	-	-	-	1	-
ABS	76	(2)	-	-	-	-	-	(36)	38	-
Corporate – non-U.S.	283	-	-	1	-	(1)	-	-	283	-
Government – non-U.S.	2	-	-	-	-	-	-	(2)	-	-
U.S. government and federal agency	293	-	16	-	-	-	-	-	309	-
Equity										
Available-for-sale	6	-	(1)	-	-	-	6	-	10	-
Derivatives(d)(e)	72	16	1	(1)	-	(1)	-	-	86	14
Other	222	10	-	-	-	-	-	-	233	-
Total	$ 4,083	$ 29	$ 10	$ 74	$ (29)	$ (45)	$ 41	$ (70)	$ 4,094	$ 14
2014										
Investment securities										
Debt										
U.S. corporate	$ 3,060	$ 4	$ (4)	$ 102	$ (57)	$ (90)	$ 32	$ (16)	$ 3,031	$ -
State and municipal	110	-	2	2	-	(1)	-	-	113	-
RMBS	66	-	-	-	-	(3)	-	(47)	16	-
CMBS	12	-	-	-	-	(2)	-	-	10	-
ABS	130	1	2	-	-	(4)	-	-	129	-
Corporate – non-U.S.	511	-	-	1	-	(23)	-	-	489	-
Government – non-U.S.	1	-	-	-	-	-	-	(1)	-	-
U.S. government and federal agency	249	-	6	-	-	-	9	-	264	-
Retained interests	1	-	-	-	-	(1)	-	-	-	-

Equity										
Available-for-sale	9	-	-	-	-	-	-	-	9	-
Derivatives(d)(e)	29	1	1	(2)	-	-	-	-	29	(1)
Other	217	5	-	-	-	-	-	-	222	-
Total	$ 4,395	$ 11	$ 7	$ 103	$ (57)	$ (124)	$ 41	$ (64)	$ 4,312	$ (1)

(a) Earnings effects are primarily included in the "GECC revenues from services" and "Interest and other financial charges" captions in the Statement of Earnings (Loss).

(b) Transfers in and out of Level 3 are considered to occur at the beginning of the period. Transfers out of Level 3 were primarily a result of increased use of quotes from independent pricing vendors based on recent trading activity.

(c) Represents the amount of unrealized gains or losses for the period included in earnings.

(d) Represents derivative assets net of derivative liabilities and included cash accruals of $12 million and $9 million not reflected in the fair value hierarchy table for the three months ended September 30, 2015 and 2014, respectively.

(e) Gains (losses) included in net realized/unrealized gains (losses) included in earnings were offset by the earnings effects from the underlying items that were economically hedged. See Note 15.

2015 3Q FORM 10-Q   PAGE 89

CHANGES IN LEVEL 3 INSTRUMENTS FOR THE NINE MONTHS ENDED

(In millions)	Balance at January 1	Net realized/ unrealized gains (losses) included in earnings(a)	Net realized/ unrealized gains (losses) included in AOCI	Purchases	Sales	Settlements	Transfers into Level 3(b)	Transfers out of Level 3(b)	Balance at September 30	Net change in unrealized gains (losses) relating to instruments still held at September 30(c)
2015										
Investment securities										
Debt										
U.S. corporate	$ 3,056	$ 2	$ (93)	$ 255	$ (84)	$ (93)	$ 35	$ (28)	$ 3,050	$ -
State and municipal	115	-	(3)	-	-	(15)	-	(17)	81	-
RMBS	16	5	(4)	-	(15)	(1)	-	-	2	-
CMBS	9	-	-	-	(7)	-	-	-	1	-
ABS	123	(16)	(5)	-	(12)	(3)	-	(49)	38	-
Corporate – non-U.S.	337	-	(4)	1	(50)	(1)	-	-	283	-
Government – non-U.S.	2	-	-	-	-	-	-	(2)	-	-
U.S. government and federal agency	266	-	44	-	-	(1)	-	-	309	-
Equity										
Available-for-sale	9	2	(3)	6	(5)	(4)	6	-	10	-
Derivatives(d)(e)	36	15	3	-	-	(9)	42	-	86	11
Other	277	(24)	-	-	(21)	-	-	-	233	(37)
Total	$ 4,246	$ (16)	$ (65)	$ 262	$ (194)	$ (127)	$ 83	$ (96)	$ 4,094	$ (26)
2014										
Investment securities										
Debt										
U.S. corporate	$ 2,787	$ 22	$ 115	$ 441	$ (213)	$ (158)	$ 170	$ (133)	$ 3,031	$ -
State and municipal	96	-	9	12	-	(4)	-	-	113	-
RMBS	86	1	-	-	(16)	(8)	-	(47)	16	-
CMBS	10	-	-	-	-	(2)	2	-	10	-
ABS	145	3	6	-	-	(15)	-	(10)	129	-
Corporate – non-U.S.	515	13	43	1	(54)	(24)	1	(6)	489	-
Government – non-U.S.	31	-	-	-	-	-	-	(31)	-	-
U.S. government and federal agency	225	-	32	-	-	-	9	(2)	264	-
Retained interests	1	-	-	-	-	(1)	-	-	-	-
Equity										
Available-for-sale	11	-	-	2	(2)	(2)	-	-	9	-
Derivatives(d)(e)	20	8	1	(1)	-	3	(1)	(1)	29	13
Other	201	16	-	20	(15)	-	-	-	222	4
Total	$ 4,128	$ 63	$ 206	$ 475	$ (300)	$ (211)	$ 181	$ (230)	$ 4,312	$ 17

(a) Earnings effects are primarily included in the "GECC revenues from services" and "Interest and other financial charges" captions in the Statement of Earnings (Loss).
(b) Transfers in and out of Level 3 are considered to occur at the beginning of the period. Transfers out of Level 3 were primarily a result of increased use of quotes from independent pricing vendors based on recent trading activity.
(c) Represents the amount of unrealized gains or losses for the period included in earnings.
(d) Represents derivative assets net of derivative liabilities and included cash accruals of $12 million and $9 million not reflected in the fair value hierarchy table for the nine months ended September 30, 2015 and 2014, respectively.
(e) Gains (losses) included in net realized/unrealized gains (losses) included in earnings were offset by the earnings effects from the underlying items that were economically hedged. See Note 15.

NON-RECURRING FAIR VALUE MEASUREMENTS

The following table represents non-recurring fair value amounts (as measured at the time of the adjustment) for those assets remeasured to fair value on a non-recurring basis during the fiscal year and still held at September 30, 2015 and December 31, 2014.

(In millions)	Remeasured during the nine months ended September 30, 2015 Level 2	Level 3	Remeasured during the year ended December 31, 2014 Level 2	Level 3
Financing receivables and financing receivables held for sale	$-	$18,152	$1	$584
Cost and equity method investments	1	2,347	-	346
Long-lived assets, including real estate	3	301	102	718
Total	$4	$20,800	$103	$1,648

The following table represents the fair value adjustments to assets measured at fair value on a non-recurring basis and still held at September 30, 2015 and 2014.

(In millions)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Financing receivables and financing receivables held for sale	$(46)	$(31)	$(2,199)	$(135)
Cost and equity method investments	(280)	(82)	(1,788)	(281)
Long-lived assets, including real estate	(91)	(275)	(165)	(335)
Total	$(417)	$(388)	$(4,151)	$(751)

2015 3Q FORM 10-Q PAGE 91

LEVEL 3 MEASUREMENTS - SIGNIFICANT UNOBSERVABLE INPUTS

(Dollars in millions)	Fair value	Valuation technique	Unobservable inputs	Range (weighted average)
September 30, 2015				
Recurring fair value measurements				
Investment securities – Debt				
U.S. corporate	$863	Income approach	Discount rate(a)	2.2%-15.3% (7.4%)
Asset-backed	38	Income approach	Discount rate(a)	5.0%-10.0% (9.1%)
Corporate – non-U.S.	226	Income approach	Discount rate(a)	6.5%-14.0% (7.4%)
Other financial assets	228	Income approach,	EBITDA multiple	6.1X-15.1X (9.8X)
		Market comparables	Capitalization rate	7.8%-7.8% (7.8%)
Non-recurring fair value measurements				
Financing receivables and financing receivables held for sale	$18,015	Income approach	Discount rate(a)	5.6%-8.0% (6.7%)
Cost and equity method investments	2,134	Income approach,	Discount rate(a)	9.0%-14.5% (11.8%)
		Market comparables	Price to book multiple	0.4X-0.7X (0.6X)
Long-lived assets, including real estate	198	Income approach	Discount rate(a)	1.7%-9.8% (6.2%)
December 31, 2014				
Recurring fair value measurements				
Investment securities – Debt				
U.S. corporate	$917	Income approach	Discount rate(a)	1.5%-14.8% (6.6%)
State and municipal	17	Income approach	Discount rate(a)	4.9%-4.9% (4.9%)
Asset-backed	102	Income approach	Discount rate(a)	4.3%-9.0% (5.6%)
Corporate – non-U.S.	278	Income approach	Discount rate(a)	3.3%-14.0% (6.5%)
Other financial assets	117	Income approach,	EBITDA multiple	5.4X-9.1X (7.7X)
		Market comparables	Capitalization rate	6.5%-7.8% (7.7%)
Non-recurring fair value measurements				
Cost and equity method investments	309	Income approach,	Discount rate(a)	8.0%-10.0% (9.4%)
		Market comparables	EBITDA multiple	1.8X-5.2X (4.8X)
Long-lived assets, including real estate	664	Income approach	Discount rate(a)	2.0%-10.8% (6.7%)

(a) Discount rates are determined based on inputs that market participants would use when pricing investments, including credit and liquidity risk. An increase in the discount rate would result in a decrease in the fair value.

At September 30, 2015 and December 31, 2014, other Level 3 recurring fair value measurements of $2,690 million and $2,596 million, respectively, and non-recurring measurements of $267 million and $657 million, respectively, are valued using non-binding broker quotes or other third-party sources. At September 30, 2015 and December 31, 2014, other recurring fair value measurements of $36 million and $210 million, respectively, and non-recurring fair value measurements of $186 million and $18 million, respectively, were individually insignificant and utilize a number of different unobservable inputs not subject to meaningful aggregation.

NOTE 15. FINANCIAL INSTRUMENTS

The following table provides information about assets and liabilities not carried at fair value. The table excludes finance leases and non-financial assets and liabilities. Substantially all of the assets discussed below are considered to be Level 3. The vast majority of our liabilities' fair value can be determined based on significant observable inputs and thus considered Level 2. Few of the instruments are actively traded and their fair values must often be determined using financial models. Realization of the fair value of these instruments depends upon market forces beyond our control, including marketplace liquidity.

	September 30, 2015			December 31, 2014		
		Assets (liabilities)			Assets (liabilities)	
(In millions)	Notional amount	Carrying amount (net)	Estimated fair value	Notional amount	Carrying amount (net)	Estimated fair value
GE						
Assets						
Investments and notes receivable	$(a)	$700	$760	$(a)	$502	$551
Liabilities						
Borrowings(b)(c)	(a)	(20,656)	(21,372)	(a)	(16,340)	(17,503)
GECC						
Assets						
Loans	(a)	78,775	85,107	(a)	115,889	120,067
Other commercial mortgages	(a)	1,392	1,520	(a)	1,427	1,508
Loans held for sale	(a)	22,651	23,039	(a)	778	799
Other financial instruments(d)	(a)	161	195	(a)	122	136
Liabilities						
Borrowings and bank deposits(b)(e)(f)	(a)	(271,944)	(283,092)	(a)	(317,674)	(333,956)
Investment contract benefits	(a)	(2,821)	(3,327)	(a)	(2,970)	(3,565)
Guaranteed investment contracts	(a)	(179)	(193)	(a)	(1,000)	(1,031)
Insurance – credit life(g)	-	-	-	1,843	(90)	(77)

(a) These financial instruments do not have notional amounts.
(b) See Note 8.
(c) Included $174 million and $94 million of accrued interest in estimated fair value at September 30, 2015 and December 31, 2014, respectively.
(d) Principally comprises cost method investments.
(e) Fair values exclude interest rate and currency derivatives designated as hedges of borrowings. Had they been included, the fair value of borrowings at September 30, 2015 and December 31, 2014 would have been reduced by $4,710 million and $5,020 million, respectively.
(f) Included $1,994 million and $2,888 million of accrued interest in estimated fair value at September 30, 2015 and December 31, 2014, respectively.
(g) Net of reinsurance of none and $964 million at September 30, 2015 and December 31, 2014, respectively.

NOTIONAL AMOUNTS OF LOAN COMMITMENTS

(In millions)	September 30, 2015	December 31, 2014

Ordinary course of business lending commitments(a)	$ 804	$ 1,214
Unused revolving credit lines(b)		
Commercial	2,054	2,908
Consumer – principally credit cards	321,710	306,188

(a) Excluded investment commitments of $579 million and $818 million at September 30, 2015 and December 31, 2014, respectively.

(b) Excluded amounts related to inventory financing arrangements, which may be withdrawn at our option, of $39 million and $47 million at September 30, 2015 and December 31, 2014, respectively.

SECURITIES REPURCHASE AND REVERSE REPURCHASE ARRANGEMENTS

Our issuances of securities repurchase agreements are insignificant and are limited to activities at certain of our foreign banks primarily for purposes of liquidity management. At September 30, 2015, we were party to repurchase agreements totaling $132 million, which were reported in short-term borrowings on the financial statements. No repurchase agreements were accounted for as off-book financing and we do not engage in securities lending transactions.

We also enter into reverse securities repurchase agreements, primarily for short-term investment with maturities of 90 days or less. At September 30, 2015, we were party to reverse repurchase agreements totaling $10.0 billion, which were reported in cash and equivalents on the financial statements. Under these reverse securities repurchase agreements, we typically lend available cash at a specified rate of interest and hold U.S. or highly-rated European government securities as collateral during the term of the agreement. Collateral value is in excess of amounts loaned under the agreements.

DERIVATIVES AND HEDGING

As a matter of policy, we use derivatives for risk management purposes and we do not use derivatives for speculative purposes. A key risk management objective for our financial services businesses is to mitigate interest rate and currency risk by seeking to ensure that the characteristics of the debt match the assets they are funding. If the form (fixed versus floating) and currency denomination of the debt we issue do not match the related assets, we typically execute derivatives to adjust the nature and tenor of funding to meet this objective within pre-defined limits. The determination of whether we enter into a derivative transaction or issue debt directly to achieve this objective depends on a number of factors, including market related factors that affect the type of debt we can issue.

The notional amounts of derivative contracts represent the basis upon which interest and other payments are calculated and are reported gross, except for offsetting foreign currency forward contracts that are executed in order to manage our currency risk of net investment in foreign subsidiaries. Of the outstanding notional amount of $279,000 million, approximately 89% or $247,000 million, is associated with reducing or eliminating the interest rate, currency or market risk between financial assets and liabilities in our financial services businesses. The remaining derivative activities primarily relate to hedging against adverse changes in currency exchange rates and commodity prices related to anticipated sales and purchases and contracts containing certain clauses that meet the accounting definition of a derivative. The instruments used in these activities are designated as hedges when practicable. When we are not able to apply hedge accounting, or when the derivative and the hedged item are both recorded in earnings concurrently, the derivatives are deemed economic hedges and hedge accounting is not applied. This most frequently occurs when we hedge a recognized foreign currency transaction (e.g., a receivable or payable) with a derivative. Since the effects of changes in exchange rates are reflected concurrently in earnings for both the derivative and the transaction, the economic hedge does not require hedge accounting.

FAIR VALUE OF DERIVATIVES

	September 30, 2015		December 31, 2014	
(In millions)	Assets	Liabilities	Assets	Liabilities
Derivatives accounted for as hedges				
Interest rate contracts	$5,579	$53	$5,859	$461
Currency exchange contracts	1,501	1,310	2,579	884
Other contracts	-	2	-	2
	7,080	1,365	8,438	1,347
Derivatives not accounted for as hedges				
Interest rate contracts	144	56	111	64
Currency exchange contracts	1,179	3,676	1,209	3,450
Other contracts	221	64	239	42
	1,544	3,796	1,559	3,556
Gross derivatives recognized in statement of financial position				
Gross derivatives	8,624	5,161	9,997	4,903
Gross accrued interest	978	9	1,392	(24)
	9,602	5,170	11,389	4,879
Amounts offset in statement of financial position				
Netting adjustments(a)	(3,762)	(3,763)	(3,886)	(3,902)
Cash collateral(b)	(2,858)	(895)	(3,698)	(461)
	(6,620)	(4,658)	(7,584)	(4,363)
Net derivatives recognized in statement of financial position				
Net derivatives	2,982	512	3,805	516
Amounts not offset in statement of financial position				
Securities held as collateral(c)	(1,694)	-	(3,188)	-
Net amount	$1,288	$512	$617	$516

Derivatives are classified in the captions "All other assets" and "All other liabilities" and the related accrued interest is classified in "Other GECC receivables" and "All other liabilities" in our financial statements.

(a) The netting of derivative receivables and payables is permitted when a legally enforceable master netting agreement exists. Amounts include fair value adjustments related to our own and counterparty non-performance risk. At September 30, 2015 and December 31, 2014, the cumulative adjustment for non-performance risk was a gain (loss) of $1 million and $16 million, respectively.

(b) Excluded excess cash collateral received and posted of $74 million and $66 million at September 30, 2015, respectively, and $63 million and $211 million at December 31, 2014, respectively.

(c) Excluded excess securities collateral received of $36 million and $397 million at September 30, 2015 and December 31, 2014, respectively.

FAIR VALUE HEDGES

We use interest rate and currency exchange derivatives to hedge the fair value effects of interest rate and currency exchange rate changes on local and non-functional currency denominated fixed-rate debt. For relationships designated as fair value hedges, changes in fair value of the derivatives are recorded in earnings within interest and other financial charges, along with offsetting adjustments to the carrying amount of the hedged debt.

EARNINGS EFFECTS OF FAIR VALUE HEDGING RELATIONSHIPS

	Three months ended September 30			
	2015		2014	
(In millions)	Gain (loss) on hedging derivatives	Gain (loss) on hedged items	Gain (loss) on hedging derivatives	Gain (loss) on hedged items
Interest rate contracts	$1,391	$(1,387)	$341	$(350)
Currency exchange contracts	(6)	5	(8)	8

Fair value hedges resulted in $3 million and $(9) million of ineffectiveness in the three months ended September 30, 2015 and 2014, respectively. In both the three months ended September 30, 2015 and 2014, there were insignificant amounts excluded from the assessment of effectiveness.

EARNINGS EFFECTS OF FAIR VALUE HEDGING RELATIONSHIPS

	Nine months ended September 30			
	2015		2014	
(In millions)	Gain (loss) on hedging derivatives	Gain (loss) on hedged items	Gain (loss) on hedging derivatives	Gain (loss) on hedged items
Interest rate contracts	$514	$(594)	$2,056	$(2,129)
Currency exchange contracts	(6)	4	(11)	10

Fair value hedges resulted in $(82) million and $(74) million of ineffectiveness in the nine months ended September 30, 2015 and 2014, respectively. In both the nine months ended September 30, 2015 and 2014, there were insignificant amounts excluded from the assessment of effectiveness.

CASH FLOW HEDGES

We use interest rate, currency exchange and commodity derivatives to reduce the variability of expected future cash flows associated with variable rate borrowings and commercial purchase and sale transactions, including commodities. For derivatives that are designated in a cash flow hedging relationship, the effective portion of the change in fair value of the derivative is reported as a component of AOCI and reclassified into earnings contemporaneously and in the same caption with the earnings effects of the hedged transaction.

	Gain (loss) recognized in AOCI for the three months ended September 30		Gain (loss) reclassified from AOCI into earnings for the three months ended September 30	
(In millions)	2015	2014	2015	2014
Interest rate contracts	$10	$9	$(39)	$(53)
Currency exchange contracts	(132)	(318)	(69)	(361)
Commodity contracts	(2)	(1)	(1)	-
Total(a)	$(124)	$(310)	$(109)	$(414)

(a) Gain (loss) is recorded in GECC revenues from services, interest and other financial charges, and other costs and expenses when reclassified to earnings.

(In millions)	Gain (loss) recognized in AOCI for the nine months ended September 30 2015	2014	Gain (loss) reclassified from AOCI into earnings for the nine months ended September 30 2015	2014
Interest rate contracts	$-	$-	$(100)	$(182)
Currency exchange contracts	(757)	(343)	(589)	(412)
Commodity contracts	(4)	(2)	(2)	(2)
Total(a)	$(761)	$(345)	$(691)	$(596)

(a) Gain (loss) is recorded in GECC revenues from services, interest and other financial charges, and other costs and expenses when reclassified to earnings.

The total pre-tax amount in AOCI related to cash flow hedges of forecasted transactions was a $173 million loss at September 30, 2015. We expect to transfer $167 million to earnings as an expense in the next 12 months contemporaneously with the earnings effects of the related forecasted transactions. In both the nine months ended September 30, 2015 and 2014, we recognized insignificant gains and losses related to hedged forecasted transactions and firm commitments that did not occur by the end of the originally specified period. At September 30, 2015 and 2014, the maximum term of derivative instruments that hedge forecasted transactions was 17 years and 18 years, respectively. See Note 11 for additional information about reclassifications out of AOCI.

For cash flow hedges, the amount of ineffectiveness in the hedging relationship and amount of the changes in fair value of the derivatives that are not included in the measurement of ineffectiveness were insignificant for each reporting period.

NET INVESTMENT HEDGES IN FOREIGN OPERATIONS

We use currency exchange derivatives and foreign-currency-denominated debt as hedging instruments to protect our net investments in global operations conducted in non-U.S. dollar currencies. For hedging instruments that are designated as hedges of net investment in a foreign operation, we assess effectiveness based on changes in spot currency exchange rates. Changes in spot rates on the hedging instruments are recorded as a component of AOCI until such time as the foreign entity is substantially liquidated or sold, or upon the loss of a controlling interest in a foreign entity. Additionally, lower of cost or fair value, less cost to sell, assessments of foreign entities classified as held for sale take into account the related AOCI. The change in fair value of any forward points, which reflects the interest rate differential between the two countries on the derivative, is excluded from the effectiveness assessment.

GAINS (LOSSES) RECOGNIZED THROUGH CTA

	Gain (loss) recognized in CTA for the three months ended September 30	Gain (loss) reclassified from CTA for the three months ended September 30

(In millions)	2015	2014	2015	2014
Derivative and non-derivative instruments	$1,297	$2,792	$1,935	$(24)

Reclassifications from CTA of $0 million and $(11) million were recorded in GECC revenues from services and $1,935 million and $(13) million in discontinued operations in the three months ended September 30, 2015 and 2014, respectively.

The amounts related to the change in the fair value of the forward points that are excluded from the measure of effectiveness were $(37) million and $(147) million in the three months ended September 30, 2015 and 2014, respectively, and were recorded in interest and other financial charges.

GAINS (LOSSES) RECOGNIZED THROUGH CTA

	Gain (loss) recognized in CTA for the nine months ended September 30		Gain (loss) reclassified from CTA for the nine months ended September 30	
(In millions)	2015	2014	2015	2014
Derivative and non-derivative instruments	$4,720	$2,194	$2,524	$(14)

Reclassifications from CTA of $(34) million and $(11)million were recorded in GECC revenues from services and $2,558 million and $(3) million in discontinued operations in the nine months ended September 30, 2015 and 2014, respectively.
The amounts related to the change in the fair value of the forward points that are excluded from the measure of effectiveness were $(93) million and $(458) million in the nine months ended September 30, 2015 and 2014, respectively, and were recorded in interest and other financial charges.

FREE-STANDING DERIVATIVES

Changes in the fair value of derivatives that are not designated as hedges are recorded in earnings each period. As discussed above, these derivatives are typically entered into as economic hedges of changes in interest rates, currency exchange rates, commodity prices and other risks. Gains or losses related to the derivative are typically recorded in GECC revenues from services or other income, based on our accounting policy. In general, the earnings effects of the item that represent the economic risk exposure are recorded in the same caption as the derivative. Gains (losses) for the nine months ended September 30, 2015 on derivatives not designated as hedges were $(2,647) million composed of amounts related to interest rate contracts of $(101) million, currency exchange contracts of $(2,492) million, and other derivatives of $(54) million. Substantially all of these losses were offset by the earnings effects from the underlying items that were economically hedged. Gains (losses) for the nine months ended September 30, 2014 on derivatives not designated as hedges were $(578) million composed of amounts related to interest rate contracts of $(53) million, currency exchange contracts of $(565) million and other derivatives of $40 million. These losses were offset by the earnings effects from the underlying items that were economically hedged.

COUNTERPARTY CREDIT RISK

Fair values of our derivatives can change significantly from period to period based on, among other factors, market movements and changes in our positions. We manage counterparty credit risk (the risk that counterparties will default and not make payments to us according to the terms of our agreements) on an individual counterparty basis. Where we have agreed to netting of derivative exposures with a counterparty, we net our exposures with that counterparty and apply the value of collateral posted to us to determine the exposure. We actively monitor these net exposures against defined limits and take appropriate actions in response, including requiring additional collateral.

As discussed above, we have provisions in certain of our master agreements that require counterparties to post collateral (typically, cash or U.S. Treasury securities) when our receivable due from the counterparty, measured at current market value, exceeds a specified limit. The fair value of such collateral was $4,552 million at September 30, 2015, of which $2,858 million was cash and $1,694 million was in the form of securities held by a custodian for our benefit. Under certain of these same agreements, we post collateral to our counterparties for our derivative obligations, the fair value of which was $895 million at September 30, 2015. At September 30, 2015, our exposure to counterparties (including accrued interest), net of collateral we hold, was $1,148 million. This excludes exposure related to embedded derivatives.

Additionally, our master agreements typically contain mutual downgrade provisions that provide the ability of each party to require termination if the long-term credit rating of the counterparty were to fall below A-/A3. In certain of these master agreements, each party also has the ability to require termination if the short-term rating of the counterparty were to fall below A-1/P-1. Our master agreements also typically contain provisions that provide termination rights upon the occurrence of certain other events, such as a bankruptcy or events of default by one of the parties. If an agreement was terminated under any of these circumstances, the termination amount payable would be determined on a net basis and could also take into account any collateral posted. The net amount of our derivative liability, after consideration of collateral posted by us and outstanding interest payments was $540 million at September 30, 2015. This excludes embedded derivatives.

NOTE 16. VARIABLE INTEREST ENTITIES

We use variable interest entities primarily to securitize financial assets and arrange other forms of asset-backed financing in the ordinary course of business. Investors in these entities only have recourse to the assets owned by the entity and not to our general credit. We do not have implicit support arrangements with any VIE. We did not provide non-contractual support for previously transferred financing receivables to any VIE in 2015 or 2014.

CONSOLIDATED VARIABLE INTEREST ENTITIES

We consolidate VIEs because we have the power to direct the activities that significantly affect the VIE's economic performance, typically because of our role as either servicer or manager for the VIE. Our consolidated VIEs fall into two main groups, which are further described below:

Consolidated Securitization Entities (CSEs) were created to facilitate securitization of financial assets and other forms of asset-backed financing that serve as an alternative funding source by providing access to variable funding notes and term markets. The securitization transactions executed with these entities are similar to those used by many financial institutions and all are non-recourse. We provide servicing for substantially all of the assets in these entities.

The financing receivables in these entities have similar risks and characteristics to our other financing receivables and were underwritten to the same standard. Accordingly, the performance of these assets has been similar to our other financing receivables; however, the blended performance of the pools of receivables in these entities reflects the eligibility criteria that we apply to determine which receivables are selected for transfer. Contractually the cash flows from these financing receivables must first be used to pay third-party debt holders as well as other expenses of the entity. Excess cash flows are available to GE and GECC. The creditors of these entities have no claim on other assets of GE or GECC.

Other remaining assets and liabilities of consolidated VIEs relate primarily to three categories of entities: (1) joint ventures that lease equipment with $466 million of assets and $466 million of liabilities; (2) other entities that are involved in power generating and leasing activities with $331 million of assets and $187 million of liabilities; and (3) insurance entities that, among other lines of business, provide property and casualty and workers' compensation coverage for GE with $1,126 million of assets and $564 million of liabilities.

ASSETS AND LIABILITIES OF CONSOLIDATED VIEs

		Consolidated Securitization Entities(b)				
(In millions)	Trinity(a)	Credit cards	Trade receivables		Other	Total
September 30, 2015						
Assets(c)						
Financing receivables, net	$ -	$24,036	$ -		$531	$24,567
Current receivables	-	-	3,134	(d)	489	3,623
Investment securities	401	-	-		1,011	1,412
Other assets	45	144	2		2,002	2,193
Total	$ 446	$24,180	$ 3,136		$4,033	$31,795
Liabilities(c)						
Borrowings	$ -	$-	$ -		$990	$990
Non-recourse borrowings	-	13,640	2,516		69	16,225
Other liabilities	193	20	28		1,282	1,523
Total	$ 193	$13,660	$ 2,544		$2,341	$18,738
December 31, 2014						
Assets(c)						
Financing receivables, net	$ -	$25,645	$ -		$1,030	$26,675
Current receivables	-	-	3,028	(d)	509	3,537
Investment securities	2,369	-	-		1,005	3,374
Other assets	17	1,059	2		2,345	3,423
Total	$ 2,386	$26,704	$ 3,030		$4,889	$37,009
Liabilities(c)						
Borrowings	$ -	$-	$ -		$517	$517
Non-recourse borrowings	-	14,967	2,692		436	18,095
Other liabilities	1,022	332	26		1,490	2,870
Total	$ 1,022	$15,299	$ 2,718		$2,443	$21,482

(a) Excluded intercompany advances from GECC to Trinity, which were eliminated in consolidation of $15 million and $1,565 million at September 30, 2015 and December 31, 2014, respectively.

(b) We provide servicing to the CSEs and are contractually permitted to commingle cash collected from customers on financing receivables sold to CSE investors with our own cash prior to payment to a CSE, provided our short-term credit rating does not fall below A-1/P-1. These CSEs also owe us amounts for purchased financial assets and scheduled interest and principal payments. At September 30, 2015 and December 31, 2014, the amounts of commingled cash owed to the CSEs were $939 million and $1,091 million, respectively, and the amounts owed to us by CSEs were $170 million and $391 million, respectively.

(c) Asset amounts exclude intercompany receivables for cash collected on behalf of the entities by GECC as servicer, which are eliminated in consolidation. Such receivables provide the cash to repay the entities' liabilities. If these intercompany receivables were included in the table above, assets would be higher. In addition, other assets, borrowings and other liabilities exclude intercompany balances that are eliminated in consolidation.

(d)

Included $724 million and $686 million of receivables at September 30, 2015 and December 31, 2014, respectively, originated by Appliances. We require third party debt holder consent to sell these assets. The receivables will be included in assets of businesses held for sale when the consent is received.

Total revenues from our consolidated VIEs were $1,635 million and $1,792 million in the three months ended September 30, 2015 and 2014, respectively, and $5,049 million and $4,966 million in the nine months ended September 30, 2015 and 2014, respectively. Related expenses consisted primarily of provisions for losses of $189 million and $244 million in the three months ended September 30, 2015 and 2014, respectively, and $714 million and $791 million in the nine months ended September 30, 2015 and 2014, respectively, and interest and other financial charges of $78 million and $70 million in the three months ended September 30, 2015 and 2014, respectively and $218 million and $197 million in the nine months ended September 30, 2015 and 2014, respectively. These amounts do not include intercompany revenues and costs, principally fees and interest between GE and the VIEs, which are eliminated in consolidation.

INVESTMENTS IN UNCONSOLIDATED VARIABLE INTEREST ENTITIES

Our involvement with unconsolidated VIEs consists of the following activities: assisting in the formation and financing of the entity; providing recourse and/or liquidity support; servicing the assets; and receiving variable fees for services provided. We are not required to consolidate these entities because the nature of our involvement with the activities of the VIEs does not give us power over decisions that significantly affect their economic performance.

The classification of our variable interests in these entities in our financial statements is based on the nature of the entity and the characteristics of the investment we hold.

INVESTMENTS IN UNCONSOLIDATED VIEs

(In millions)	September 30, 2015	December 31, 2014
Other assets and investment securities	$ 810	$ 806
Financing receivables – net	10	120
Total investments	820	926
Contractual obligations to fund investments, guarantees or revolving lines of credit	99	37
Total	$ 919	$ 963

In addition to the entities included in the table above, we also hold passive investments in RMBS, CMBS and asset-backed securities issued by VIEs. Such investments were, by design, investment-grade at issuance and held by a diverse group of investors. Further information about such investments is provided in Note 3.

NOTE 17. INTERCOMPANY TRANSACTIONS

Transactions between related companies are made on an arms-length basis, are eliminated and consist primarily of GECC dividends to GE; GE customer receivables sold to GECC; GECC services for trade receivables management and material procurement; buildings and equipment (including automobiles) leased between GE and GECC; information technology (IT) and other services sold to GECC by GE; aircraft engines manufactured by GE that are installed on aircraft purchased by GECC from third-party producers for lease to others; and various investments, loans and allocations of GE corporate overhead costs.

These intercompany transactions are reported in the GE and GECC columns of our financial statements, but are eliminated in deriving our consolidated financial statements. Effects of these eliminations on our consolidated cash flows from operating, investing and financing activities are $(413) million, $(56) million and $469 million in the nine months ended September 30, 2015, and $(2,782) million, $(797) million and $3,579 million in the nine months ended September 30, 2014, respectively. Details of these eliminations are shown below.

	Nine months ended September 30	
(In millions)	2015	2014
Cash from (used for) operating activities-continuing operations		
Combined	$10,478	$13,950
GE customer receivables sold to GECC	162	43
GECC dividends to GE	(450)	(2,221)
Other reclassifications and eliminations	(125)	(604)
	$10,065	$11,168
Cash from (used for) investing activities-continuing operations		
Combined	$52,597	$2,465
GE customer receivables sold to GECC	(243)	(948)
Other reclassifications and eliminations	187	151
	$52,541	$1,668
Cash from (used for) financing activities-continuing operations		
Combined	$(45,781)	$(16,198)
GE customer receivables sold to GECC	81	905
GECC dividends to GE	450	2,221
Other reclassifications and eliminations	(62)	453
	$(45,312)	$(12,619)

NOTE 18. SUPPLEMENTAL INFORMATION ABOUT THE CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR LOSSES

As described in Note 5, our Consumer portfolio has been significantly reduced as all of our non-U.S. consumer financing receivables have been reclassified to either financing receivables held for sale or assets of businesses held for sale. In addition our Real Estate business and most of our CLL business have been classified as discontinued operations.

CREDIT QUALITY INDICATORS

Detailed information about the credit quality of our Commercial and Consumer financing receivables portfolios is provided below. For each portfolio, we describe the characteristics of the financing receivables and provide information about collateral, payment performance, credit quality indicators and impairment. We manage these portfolios using delinquency and nonaccrual data as key performance indicators. The categories used within this section such as impaired loans, troubled debt restructuring (TDR) and nonaccrual financing receivables are defined by the authoritative guidance and we base our categorization on the related scope and definitions contained in the related standards. The categories of nonaccrual and delinquent are used in our process for managing our financing receivables.

PAST DUE AND NONACCRUAL FINANCING RECEIVABLES

	September 30, 2015					December 31, 2014				
(In millions)	Over 30 days past due	Over 90 days past due		Nonaccrual		Over 30 days past due	Over 90 days past due		Nonaccrual	
Commercial										
CLL	$ 655	$ 174		$ 27		$ 610	$ 131		$ 25	
Energy Financial Services	63	63		82		-	-		68	
GECAS	2	-		195		-	-		419	
Total Commercial	720	237		304	(a)	610	131		512	(a)
Consumer	2,553	1,102	(b)	2	(c)	5,137	2,495	(b)	1,484	(c)
Total	$ 3,273	$ 1,339		$ 306		$ 5,747	$ 2,626		$ 1,996	
Total as a percent of financing receivables	3.8 %	1.5 %		0.4 %		4.5 %	2.1 %		1.6 %	

(a) Included $228 million and $484 million at September 30, 2015 and December 31, 2014, respectively, which are currently paying in accordance with their contractual terms.

(b) Included $1,100 million and $1,231 million of Consumer loans at September 30, 2015 and December 31, 2014, respectively, which are over 90 days past due and continue to accrue interest until the accounts are written off in the period that the account becomes 180 days past due.

(c) Included none and $179 million at September 30, 2015 and December 31, 2014, respectively, which are currently paying in accordance with their contractual terms.

IMPAIRED LOANS AND RELATED RESERVES

	With no specific allowance			With a specific allowance			
(In millions)	Recorded investment in loans	Unpaid principal balance	Average investment in loans	Recorded investment in loans	Unpaid principal balance	Associated allowance(a)	Average investment in loans
September 30, 2015							
Commercial							
CLL	$ 11	$ 11	$ 11	$ 5	$ 5	$ 3	$ 5
Energy Financial Services	82	100	54	-	-	-	6
GECAS	116	122	213	-	-	-	-
Other	-	-	-	-	-	-	-
Total Commercial(b)	209	233	278	5	5	3	11
Consumer(c)	-	-	35	736	640 (d)	242	1,055
Total	$ 209	$ 233	$ 313	$ 741	$ 645	$ 245	$ 1,066
December 31, 2014							
Commercial							
CLL	$ 10	$ 10	$ 7	$ 5	$ 5	$ 4	$ 4
Energy Financial Services	53	54	26	15	15	12	24
GECAS	329	337	88	-	-	-	15
Other	-	-	-	-	-	-	1
Total Commercial(b)	392	401	121	20	20	16	44
Consumer(c)	138	179	120	2,042	2,092	408	2,547
Total	$ 530	$ 580	$ 241	$ 2,062	$ 2,112	$ 424	$ 2,591

(a) Write-offs to net realizable value are recognized against the allowance for losses primarily in the reporting period in which management has deemed all or a portion of the financing receivable to be uncollectible.

(b) We recognized insignificant amounts of interest income, including none on a cash basis, in the nine months ended September 30, 2015, the year ended December 31, 2014 and the nine months ended September 30, 2014, respectively, in CLL. The total average investment in impaired loans for the nine months ended September 30, 2015 and the year ended December 31, 2014 was $289 million and $165 million, respectively.

(c) We recognized $48 million, $126 million and $135 million of interest income, including $1 million, $5 million and $3 million on a cash basis, in the nine months ended September 30, 2015, the year ended December 31, 2014 and the nine months ended September 30, 2014, respectively. The total average investment in impaired loans for the nine months ended September 30, 2015 and the year ended December 31, 2014 was $1,090 million and $2,667 million, respectively.

(d) Unpaid principal balance excludes accrued interest and fees.

(In millions)	Non-impaired financing receivables	General reserves	Impaired loans	Specific reserves
September 30, 2015				
Commercial	$ 23,470	$ 82	$ 214	$ 3

Consumer	62,784	3,130	736	242
Total	$ 86,254	$ 3,212	$ 950	$ 245
December 31, 2014				
Commercial	$ 25,329	$ 77	$ 412	$ 16
Consumer	98,640	3,603	2,180	408
Total	$ 123,969	$ 3,680	$ 2,592	$ 424

IMPAIRED LOAN BALANCE CLASSIFIED BY THE METHOD USED TO MEASURE IMPAIRMENT

(In millions)	September 30, 2015	December 31, 2014
Discounted cash flow	$ 819	$ 2,149
Collateral value	131	443
Total	$ 950	$ 2,592

Our loss mitigation strategy is intended to minimize economic loss and, at times, can result in rate reductions, principal forgiveness, extensions, forbearance or other actions, which may cause the related loan to be classified as a troubled debt restructuring (TDR), and also as impaired. The determination of whether these changes to the terms and conditions of our commercial loans meet the TDR criteria includes our consideration of all relevant facts and circumstances. At September 30, 2015, TDRs included in impaired loans were $860 million, primarily relating to Consumer ($736 million), GECAS ($112 million), Energy Financial Services ($7 million) and CLL ($5 million).

Impaired loans in our Consumer business represent restructured smaller balance homogeneous loans meeting the definition of a TDR, and are therefore subject to the disclosure requirement for impaired loans. Impaired loans classified as TDRs in our Consumer business were $736 million and $2,132 million at September 30, 2015 and December 31, 2014, respectively. We utilize certain loan modification programs for borrowers experiencing financial difficulties in our Consumer loan portfolio. These loan modification programs primarily include interest rate reductions and payment deferrals in excess of three months, which were not part of the terms of the original contract. For the nine months ended September 30, 2015, we modified $363 million of U.S. consumer loans, primarily credit cards for borrowers experiencing financial difficulties, which are classified as TDRs. We expect borrowers whose loans have been modified under these programs to continue to be able to meet their contractual obligations upon the conclusion of the modification. Of our $621 million and $1,074 million of consumer loans modifications classified as TDRs in the twelve months ended September 30, 2015 and 2014, respectively, $49 million and $95 million have subsequently experienced a payment default in the nine months ended September 30, 2015 and 2014, respectively.

SUPPLEMENTAL CREDIT QUALITY INFORMATION

COMMERCIAL

Substantially all of our Commercial financing receivables portfolio is secured lending and we assess the overall quality of the portfolio based on the potential risk of loss measure. The metric incorporates both the borrower's credit quality along with any related collateral protection.

Our internal risk ratings process is an important source of information in determining our allowance for losses and represents a comprehensive approach to evaluate risk in our financing receivables portfolios. In deriving our internal risk ratings, we stratify our Commercial portfolios into 21 categories of default risk and/or six categories of loss given default to group into three categories: A, B and C. Our process starts by developing an internal risk rating for our borrowers, which is based upon our proprietary models using data derived from borrower financial statements, agency ratings, payment history information, equity prices and other commercial borrower characteristics. We then evaluate the potential risk of loss for the specific lending transaction in the event of borrower default, which takes into account such factors as applicable collateral value, historical loss and recovery rates for similar transactions, and our collection capabilities. Our internal risk ratings process and the models we use are subject to regular monitoring and internal controls. The frequency of rating updates is set by our credit risk policy, which requires annual Risk Committee approval.

As described above, financing receivables are assigned one of 21 risk ratings based on our process and then these are grouped by similar characteristics into three categories in the table below. Category A is characterized by either high-credit-quality borrowers or transactions with significant collateral coverage that substantially reduces or eliminates the risk of loss in the event of borrower default. Category B is characterized by borrowers with weaker credit quality than those in Category A, or transactions with moderately strong collateral coverage that minimizes but may not fully mitigate the risk of loss in the event of default. Category C is characterized by borrowers with higher levels of default risk relative to our overall portfolio or transactions where collateral coverage may not fully mitigate a loss in the event of default.

COMMERCIAL FINANCING RECEIVABLES BY RISK CATEGORY

(In millions)	Secured A	B	C	Total
September 30, 2015				
CLL	$13,260	$44	$37	$13,341
Energy Financial Services	2,301	41	-	2,342
GECAS	7,076	225	93	7,394
Other	153	-	-	153
Total	$22,790	$310	$130	$23,230
December 31, 2014				
CLL	$14,271	$49	$98	$14,418
Energy Financial Services	2,479	60	16	2,555
GECAS	7,908	237	118	8,263
Other	130	-	-	130
Total	$24,788	$346	$232	$25,366

For our secured financing receivables portfolio, our collateral position and ability to work out problem accounts mitigate our losses. Our asset managers have deep industry expertise that enables us to identify the optimum approach to default situations. We price risk premiums for weaker credits at origination, closely monitor changes in creditworthiness through our risk ratings and watch list process, and are engaged early with deteriorating credits to minimize economic loss. Loans within Category C are reviewed and monitored regularly, and classified as impaired when it is probable that they will not pay in accordance with contractual terms. Our internal risk rating process identifies credits warranting closer monitoring; and as such, these loans are not necessarily classified as nonaccrual or impaired.

At September 30, 2015 and December 31, 2014, our unsecured commercial financing receivables included $165 million and $88 million rated A, and $289 million and $287 million rated B, respectively. We did not have any unsecured commercial financing receivables rated C at September 30, 2015 and December 31, 2014, respectively.
CONSUMER

At September 30, 2015, our U.S. consumer financing receivables included private-label credit card and sales financing for approximately 63 million customers across the U.S. with no metropolitan area accounting for more than 6% of the portfolio. Of the total U.S. consumer financing receivables, approximately 66% relate to credit card loans that are often subject to profit and loss sharing arrangements with the retailer (which are recorded in revenues), and the remaining 34% are sales finance receivables that provide financing to customers in areas such as electronics, recreation, medical and home improvement.

Our Consumer financing receivables portfolio comprises both secured and unsecured lending. Secured financing receivables are largely comprised of consumer installment loans secured by equipment. Unsecured financing receivables include private-label credit card financing. A substantial majority of these cards are not for general use and are limited to the products and services sold by the retailer. The private-label portfolio is diverse with no metropolitan area accounting for more than 5% of the related portfolio.

We assess overall credit quality of our U.S. installment and revolving credit portfolio using information from credit bureaus such as Fair Isaac Corporation (FICO) scores. FICO scores are generally obtained at origination of the account and are refreshed at a minimum quarterly, but could be as often as weekly, to assist in predicting customer behavior. We categorize these credit scores into the following three categories; (a) 661 or higher, which are considered the strongest credits; (b) 601 to 660, which are considered moderate credit risk; and (c) 600 or less, which are considered weaker credits.

	Refreshed FICO score					
	September 30, 2015			December 31, 2014		
(in millions)	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less
U.S. installment and revolving credit	$45,383	$12,304	$4,403	$43,466	$11,865	$4,532

U.S. installment and revolving credit accounts with FICO scores of 600 or less have an average outstanding balance less than one thousand U.S. dollars and are primarily concentrated in our retail card and sales financing portfolios, which minimizes the potential for loss in the event of default. For lower credit scores, we adequately price for the incremental risk at origination and monitor credit migration through our risk ratings process. We continuously adjust our credit line underwriting management and collection strategies based on customer behavior and risk profile changes.

For our Consumer - Other portfolio, we develop our internal risk ratings for this portfolio in a manner consistent with the process used to develop our Commercial credit quality indicators, described above. We use the borrower's credit quality and underlying collateral strength to determine the potential risk of loss from these activities.

At September 30, 2015, Consumer - Other financing receivables of $1,138 million, $117 million and $175 million were rated A, B and C, respectively. At December 31, 2014, Consumer – Other financing receivables of $5,006 million, $276 million and $382 million were rated A, B and C, respectively.

EXHIBITS

Exhibit 11	Computation of Per Share Earnings.*
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 31(a)	Certification Pursuant to Rules 13a14(a) or 15d14(a) under the Securities Exchange Act of 1934, as Amended.
Exhibit 31(b)	Certification Pursuant to Rules 13a14(a) or 15d14(a) under the Securities Exchange Act of 1934, as Amended.
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350.
Exhibit 99(a)	Financial Measures That Supplement Generally Accepted Accounting Principles.
Exhibit 99(b)	Computation of Ratio of Earnings to Fixed Charges (Incorporated by reference to Exhibit 12 to General Electric Capital Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015 (Commission file number 001-06461)).
Exhibit 101	The following materials from General Electric Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language); (i) Statement of Earnings (Loss) for the three and nine months ended September 30, 2015 and 2014, (ii) Consolidated Statement of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014, (iii) Consolidated Statement of Changes in Shareowners' Equity for the nine months ended September 30, 2015 and 2014, (iv) Statement of Financial Position at September 30, 2015 and December 31, 2014, (v) Statement of Cash Flows for the nine months ended September 30, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.

* Data required by Financial Accounting Standards Board Accounting Standards Codification 260, Earnings Per Share, is provided in Note 13 to the Consolidated Financial Statements in this Report.

FORM 10-Q CROSS REFERENCE INDEX

(a) There have been no significant changes to our market risk since December 31, 2014. For a discussion of our exposure to market risk, refer to our Annual Report on Form 10-K for the year ended December 31, 2014.

(b) There have been no significant changes to our risk factors since December 31, 2014. For a discussion of our risk factors, refer to our Annual Report on Form 10-K for the year ended December 31, 2014.

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.

	General Electric Company (Registrant)
October 30, 2015	/s/ Jan R. Hauser Jan R. Hauser
Date	Vice President and Controller Duly Authorized Officer and Principal Accounting Officer