PERINI CORP
Form 10-Q
November 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _________ to _________

Commission File Number: 1-6314

Perini Corporation
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-1717070
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

73 MT. WAYTE AVENUE, FRAMINGHAM, MASSACHUSETTS 01701-9160
(Address of principal executive offices)
(Zip code)

(508) 628-2000
(Registrant's telephone number, including area code)

NONE
(Former name, former address and former fiscal year,

if changed since last report)

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

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

Large accelerated filer _X_ Accelerated filer ___ Non-Accelerated filer ____ Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No _X_

The number of shares of Common Stock, $1.00 par value per share, of the registrant outstanding at November 5, 2008 was 50,322,621.

PERINI CORPORATION AND SUBSIDIARIES

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Part I. Financial Information

Item 1. Financial Statements (Unaudited)

PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

SEPTEMBER 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

(In Thousands)

	SEPT. 30, 2008	**DEC. 31, 2007**
ASSETS	(Note 3)	
Cash and Cash Equivalents (Note 4)	$ 400,689	$ 459,188
Short-term Investments (Note 5)	8,503	8,355
Accounts Receivable, including retainage	1,463,717	971,714
Costs and Estimated Earnings in Excess of Billings	106,107	74,397
Deferred Income Taxes	1,215	7,988
Other Current Assets	22,015	4,440
Total Current Assets	$ 2,002,246	$ 1,526,082
Property and Equipment, less accumulated depreciation of $43,561 in 2008 and $38,645 in 2007	$ 271,464	$ 95,437
Other Assets:		
Long-term Investments (Note 5)	$ 100,286	$ -
Goodwill	739,192	26,268
Intangible Assets, net	254,473	4,141
Other	16,367	2,187
Total Other Assets	$ 1,110,318	$ 32,596
	$ 3,384,028	$ 1,654,115
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Maturities of Long-term Debt	$ 21,429	$ 7,374
Accounts Payable, including retainage	1,327,711	939,593
Billings in Excess of Costs and Estimated Earnings	243,489	183,242
Accrued Expenses	154,727	102,352
Total Current Liabilities	$ 1,747,356	$ 1,232,561
Long-term Debt, less current maturities included above	$ 48,996	$ 13,358
Deferred Income Taxes	$ 119,950	$ 3,244
Other Long-term Liabilities	$ 121,412	$ 36,618
Contingencies and Commitments (Note 6)		
Stockholders Equity:		
Common Stock	$ 50,323	$ 26,987
Additional Paid-in Capital	1,027,580	160,664
Retained Earnings	286,016	198,200
Accumulated Other Comprehensive Loss	(17,605)	(17,517)
Total Stockholders' Equity	$ 1,346,314	$ 368,334
	$ 3,384,028	$ 1,654,115

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

PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(In Thousands, Except Per Share Data)

	THREE MONTHS ENDED SEPTEMBER 30,		**NINE MONTHS ENDED SEPTEMBER 30,**	
	2008	**2007**	**2008**	**2007**
Revenues (Note 11)	$ 1,412,635	$ 1,242,666	$ 4,057,358	$ 3,381,642
Cost of Operations	1,327,128	1,178,771	3,834,291	3,194,948
Gross Profit	$ 85,507	$ 63,895	$ 223,067	$ 186,694
General and Administrative Expenses (Note 7)	33,244	30,396	89,241	79,734
INCOME FROM CONSTRUCTION OPERATIONS (Note 11)	**$ 52,263**	**$ 33,499**	**$ 133,826**	**$ 106,960**
Other Income, Net	2,657	4,425	6,697	9,581
Interest Expense	(1,044)	(406)	(1,793)	(1,527)
Income before Income Taxes	$ 53,876	$ 37,518	$ 138,730	$ 115,014
Provision for Income Taxes	(19,770)	(13,507)	(50,914)	(40,772)
NET INCOME	**$ 34,106**	**$ 24,011**	**$ 87,816**	**$ 74,242**
BASIC EARNINGS PER COMMON SHARE (Note 9)	$ 1.03	$ 0.89	$ 3.01	$ 2.77
DILUTED EARNINGS PER COMMON SHARE (Note 9)	$ 1.01	$ 0.87	$ 2.96	$ 2.71
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (Note 9):				
BASIC	33,077	26,936	29,145	26,763
Effect of Dilutive Stock Options, Warrants and Restricted Stock Units Outstanding	530	622	545	591
DILUTED	33,607	27,558	29,690	27,354

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

PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(In Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 2007	$ 26,987	$ 160,664	$ 198,200	$ (17,517)	$ 368,334
Net income	-	-	87,816	-	87,816
Other Comprehensive Loss:					
Foreign currency translation	-	-	-	(88)	(88)
Total comprehensive income					87,728
Common stock issued in acquisition of Tutor-Saliba Corp. (Note 3)	22,987	858,476		-	881,463
Excess income tax benefit from stock-based compensation	-	533	-	-	533
Stock compensation expense (Note 7)	-	8,540	-	-	8,540
Issuance of common stock and effect of cashless exercise	349	(633)	-	-	(284)
Balance - September 30, 2008	$ 50,323	$ 1,027,580	$ 286,016	$ (17,605)	$ 1,346,314

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

PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(In Thousands)

	NINE MONTHS ENDED SEPT. 30, 2008	2007
Cash Flows from Operating Activities:		
Net income	$ 87,816	$ 74,242
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	11,194	8,340
Stock compensation expense	8,540	10,096
Adjustment of investments to fair value	2,702	(25)
Excess income tax benefit from stock-based compensation	(533)	(5,274)
Deferred income taxes	1,429	(4,632)
Gain on sale of equipment	(396)	(283)
(Gain) loss on land held for sale	412	(675)
Increase in other long-term liabilities	6,459	11,550
Cash from changes in other components of working capital	(86,430)	88,726
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 31,193	$ 182,065
Cash Flows from Investing Activities:		
Cash balance recorded in acquisition of Tutor-Saliba Corporation, net of transaction costs (Note 3)	$ 92,489	$ -
Acquisition of property and equipment	(52,060)	(20,572)
Proceeds from sale of property and equipment	3,981	2,372
Investment in available-for-sale securities, net	(103,136)	(7,884)
Investment in other activities	(1,248)	1,328
NET CASH USED BY INVESTING ACTIVITIES	$ (59,974)	$ (24,756)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	$ 2,214	$ 5,595
Repayment of long-term debt	(31,709)	(31,817)
Excess income tax benefit from stock-based compensation	533	5,274
Issuance of common stock and effect of cashless exercise	(284)	146
Proceeds from exercise of common stock options and stock purchase warrants	-	809
Deferred debt costs	(472)	(980)
NET CASH USED BY FINANCING ACTIVITIES	$ (29,718)	$ (20,973)
Net (Decrease) Increase in Cash and Cash Equivalents	(58,499)	136,336
Cash and Cash Equivalents at Beginning of Year	459,188	225,504
Cash and Cash Equivalents at End of Period	$ 400,689	$ 361,840
Supplemental Disclosure of Cash Paid During the Period For:		
Interest	$ 1,751	$ 1,574
Income taxes	$ 52,596	$ 42,077
Supplemental Disclosure of Non-cash Transactions:		
Common stock issued in acquisition of Tutor-Saliba Corporation	$ 881,463	$ -
Grant date fair value of common stock issued for services	$ 12,651	$ 5,966
Property and equipment acquired through financing arrangements	$ 10,585	$ -

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

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) Basis of Presentation

The unaudited consolidated condensed financial statements presented herein include the accounts of Perini Corporation and its wholly owned subsidiaries (Perini or the Company). The Company s interests in construction joint ventures are accounted for using the proportionate consolidation method. These unaudited consolidated condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. In the opinion of management, the accompanying unaudited consolidated condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2008 and December 31, 2007, results of operations for the three month and nine month periods ended September 30, 2008 and 2007, and cash flows for the nine month periods ended September 30, 2008 and 2007. The results of operations for the nine months ended September 30, 2008 may not be indicative of the results that may be expected for the year ending December 31, 2008 because, among other reasons, such results can vary depending on the timing of progress achieved and changes in estimated profitability of projects being reported.

(2) Significant Accounting Policies

The significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note 1 to such financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The Company has made no significant changes to these policies during 2008, except as noted below.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS No. 157) which clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. SFAS No. 157 applies under other accounting pronouncements that currently require or permit fair value measurements. The Company adopted SFAS No. 157 on January 1, 2008, as required. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which amends SFAS No. 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, the application of SFAS No. 157 relating to non-financial assets and non-financial liabilities of the Company will be adopted prospectively beginning January 1, 2009. See Note 5, Fair Value Measurements for additional information.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of SFAS No. 115, (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company adopted SFAS No. 159 on January 1, 2008, as required. The Company did not elect the fair value measurement option for any of its financial assets or liabilities. Therefore, the adoption of SFAS No. 159 had no impact on the Company s financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(2) Significant Accounting Policies (continued)

combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for the Company beginning January 1, 2009 and the Company will apply the provisions of SFAS No. 141(R) prospectively to any business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51, (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for the Company beginning January 1, 2009 and the Company will apply the provisions of SFAS No. 160 prospectively as of that date.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133, (SFAS No. 161). SFAS No. 161 is effective for the Company beginning January 1, 2009. SFAS No. 161 applies only to financial statement disclosures, and the Company does not expect the adoption of SFAS No. 161 to have a material impact on its consolidated financial statements and related disclosures.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement will be effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 to have a material impact on its consolidated financial statements.

(3) Merger With Tutor-Saliba Corporation

On September 8, 2008, the Company acquired all of the outstanding shares of Tutor-Saliba Corporation (Tutor-Saliba), a privately-held California-based construction company, in exchange for 22,987,293 shares of the Company s common stock. Two trusts controlled by Ronald N. Tutor, the Chief Executive Officer of both companies prior to the merger, which collectively owned 96% of the outstanding stock of Tutor-Saliba prior to the merger, received approximately 22.1 million shares of our common stock in connection with the merger. As a result of the merger, Mr. Tutor, through these two trusts, is the beneficial owner of approximately 43% of our outstanding common stock. These shares are subject to certain restrictions contained in a shareholders agreement between Mr. Tutor, the Company and other former Tutor-Saliba shareholders as described in the Current Report on Form 8-K filed with the SEC on April 7, 2008.

The fair value of the Company s common stock issued in the merger was equal to $38.35 per share, which was based on the average of the closing market prices of the Company s common stock for the period beginning three trading days before and ending three trading days after April 2, 2008, the date on which the merger agreement was publicly announced, in accordance with EITF Issue 99-12, Determination of the Market Price of Acquirer Securities Issued in a Purchase Business Combination. In addition to the shares issued, the purchase price includes $13.5 million of estimated direct transaction costs, which consists of investment banking, legal and accounting fees, regulatory filing fees, and other external costs directly related to the merger. The Company s consolidated results of operations and financial position include the financial results of Tutor-Saliba from the date of acquisition.

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PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(3) **Merger With Tutor-Saliba Corporation** (continued)

Tutor-Saliba operates in three business segments: building construction, civil construction and international. Tutor-Saliba s building operations are conducted primarily in Nevada and California. Its civil operations have been historically focused primarily in California and New York. Its international operations are conducted primarily in Guam and the Philippines. Tutor-Saliba is a leading civil infrastructure and commercial building construction company that focuses on large, complex projects, usually ranging from $100 million to $1 billion or more in size. Tutor Saliba manages all aspects of these projects, including design-build, design-bid-build and pre-construction services for project owners. These capabilities, together with its significant capacity to self-perform critical construction specialties such as concrete forming and placement, site excavation and support of excavation, and electrical and mechanical services, are the core strengths of Tutor-Saliba.

Tutor-Saliba was acquired because the Company believes it is a strong strategic fit, providing the combined company with enhanced opportunities for growth not available to the Company on a stand-alone basis through increased size, scale and management capabilities, complementary assets and expertise, particularly Tutor-Saliba s expertise in civil projects, immediate access to multiple geographic regions, and increased ability to compete for larger numbers of projects particularly in the civil construction segment due to an increased bonding capacity. The merger will also allow Mr. Tutor to focus his management efforts on the growth and development of the combined company.

The transaction was accounted for using the purchase method of accounting as required by SFAS No. 141, Business Combinations . The Company has not yet completed the final allocation of the purchase price to the tangible and intangible assets of Tutor-Saliba. Pending the outcome of further analysis and third party valuations of the assets acquired, the preliminary purchase price allocation could change. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Current assets	$ 426,048
Property and equipment	124,515
Other long-term assets	14,268
Intangible assets	253,630
Goodwill	711,925
Total assets acquired	1,530,386
Current maturities of long-term debt	(16,762)
Other current liabilities	(366,280)
Long-term debt	(51,801)
Deferred income tax liabilities	(122,243)
Other long-term liabilities	(78,337)
Total purchase price	$ 894,963

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(3) Merger With Tutor-Saliba Corporation (continued)

The $711.9 million of Goodwill referred to above has been allocated to the Company s reportable segments, as follows: building construction segment ($407.4 million), civil construction segment ($253.5 million) and management services segment ($51.0 million). Approximately $12.0 million of the goodwill will be deductible for tax purposes.

The following table identifies the intangible assets acquired and their respective amortization period. The amounts assigned to intangible assets represent the Company s estimate of the fair value of the intangible assets acquired as of the acquisition date based on a preliminary independent appraisal.

	Fair Value (in thousands)	**Weighted Average Amortization Period**
Trade name	$169,700	Indefinite
Favorable lease arrangements	32,900	30 years
Customer relationships	23,700	13 years
Construction contract backlog	21,300	2.3 years
Contractor licenses	6,030	Indefinite
Total	$ 253,630	

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , the Company assesses the potential amount of impairment, if any, of goodwill and indefinite-lived intangible assets at least annually and whenever events or changes indicate that the carrying value may not be recoverable. As a result of the recently completed acquisition of Tutor-Saliba, the Company is in the process of completing its annual impairment test to assess the potential amount of impairment, if any, of the goodwill and indefinite-lived intangible assets initially recorded in the transaction. Impairment assessment inherently involves judgments as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. The Company is evaluating the impact of current global economic and financial market conditions, including severe disruptions in the credit markets, on the construction markets in which the Company operates. In order to complete the testing for impairment, the Company is reviewing its estimates of future cash flows relating to the reporting units of Tutor-Saliba. To the extent the value of goodwill or intangible assets is impaired, the Company will be required to incur a non-cash charge to the Statement of Income relating to such impairment.

The following unaudited pro forma summary financial information presents the operating results of the combined company assuming that the merger occurred on January 1, 2007. This unaudited pro forma summary financial information is presented for informational purposes only and is not indicative either of the operating results that actually would have occurred had the merger been completed on January 1, 2007, or of future results.

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(3) Merger With Tutor-Saliba Corporation (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands, except per share amounts) **(Unaudited Pro Forma)**			
Revenues	$1,650,298	$1,586,170	$5,092,875	$ 4,268,932
Income from construction operations	46,754	45,270	173,805	140,400
Net income	30,004	40,173	111,011	138,826
Earnings per share:				
Basic	$ 0.60	$ 0.80	$ 2.21	$ 2.79
Diluted	$ 0.59	$ 0.79	$ 2.19	$ 2.76
Weighted average shares outstanding:				
Basic	50,317	49,923	50,202	49,750
Diluted	50,847	50,545	50,747	50,341

The pro forma operating results for the three months and nine months ended September 30, 2008 include merger-related costs incurred by Tutor-Saliba of approximately $4.2 million and $7.0 million, respectively. The pro forma operating results for the three months and nine months ended September 30, 2007 include gains on the sales of marketable securities recorded by Tutor-Saliba of approximately $13.7 million and $71.1 million, respectively. The pro forma diluted earnings per share excluding the gains on sale of marketable securities for the three months and nine months ended September 30, 2007 were $0.63 and $1.88, respectively.

(4) Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

Cash and cash equivalents as reported in the accompanying Consolidated Condensed Balance Sheets consist of amounts held by the Company that are available for general corporate purposes and the Company s proportionate share of amounts held by construction joint ventures that are available only for joint venture-related uses. Joint venture cash and cash equivalents are not restricted to specific uses within those entities; however, the terms of the joint venture agreements limit the Company s ability to distribute those funds and use them for corporate purposes. Cash held by construction joint ventures is distributed from time to time to the Company and to the other joint venture participants in accordance with their percentage interest after the joint venture partners determine that a cash distribution is prudent. Cash distributions received by the Company from its construction joint ventures are then available for general corporate purposes. At September 30, 2008 and December 31, 2007, the Company s cash balance also includes $4.4 million and $25.0 million, respectively, which represents an advance received from a project owner to be used to fund subcontract work on a specific project under certain circumstances. The Company has included these amounts in its contract billings and they are included as a component of billings in excess of costs and estimated earnings in the Consolidated Condensed

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(4) Cash and Cash Equivalents (continued)

Balance Sheets at September 30, 2008 and December 31, 2007.

At September 30, 2008 and December 31, 2007, cash and cash equivalents consisted of the following (in thousands):

	Sept. 30, 2008	**Dec. 31, 2007**
Corporate cash and cash equivalents (available for general corporate purposes)	$ 370,387	$ 426,825
Company's share of joint venture cash and cash equivalents (available only for joint venture purposes, including future distributions)	30,302	32,363
	$ 400,689	$ 459,188

(5) Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS No. 157) which clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. SFAS No. 157 applies under other accounting pronouncements that currently require or permit fair value measurements. The Company adopted SFAS No. 157 on January 1, 2008, as required. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which amends SFAS No. 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, the application of SFAS No. 157 relating to non-financial assets and non-financial liabilities of the Company will be adopted prospectively beginning January 1, 2009.

SFAS No. 157 establishes a three-tier valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs used in measuring fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. These hierarchical tiers are defined as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 inputs are other than quoted prices in active markets that are either directly or indirectly observable through market corroboration.

Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions based on the best information available in the circumstances.

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PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(5) <u>Fair Value Measurements</u> (continued)

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2008 (in thousands):

		Fair Value Measurements at Sept. 30, 2008 Using		
	Total Carrying Value at Sept. 30, 2008	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash and cash equivalents (1)	$ 400,689	$ 400,689	$ -	$ -
Short-term investments, exclusive of auction rate securities (2)	153	-	153	-
Auction rate securities (3)				
Short-term	8,350	-	-	8,350
Long-term	100,286	-	-	100,286
TOTAL	$ 509,478	$ 400,689	$ 153	$ 108,636

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows (in thousands):

	Auction Rate Securities
Balance at December 31, 2007	$ -
Transfer into Level 3	8,000
Purchases and settlements, net	103,275
Impairment loss included in other income, net	(2,639)
Balance at September 30, 2008	$ 108,636

(1) Cash and cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which fair value is determined through quoted market prices.

(2) Short-term investments consist of an S&P 500 index mutual fund for which fair value is determined through quoted market prices.

(3) At September 30, 2008, the Company had $108.6 million invested in auction rate securities (ARS) which the Company considers as available-for-sale. The majority of the ARS held by the Company at September 30, 2008, totaling $79.1 million, are in securities collateralized by student loan portfolios, which are guaranteed by the United States government. An additional amount totaling $21.2 million are in securities collateralized by student loan portfolios, which are privately insured. The remainder of the securities, totaling $8.3 million, are in tax-exempt bond investments, for which the market has had a number of successful auctions in the past nine months. All of the Company s ARS are rated AAA or AA. The Company estimated the fair value of its ARS utilizing an income approach valuation model which considered, among other items, the following

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PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(5) <u>Fair Value Measurements</u> (continued)

inputs: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; and (iii) consideration of the probabilities of default or repurchase at par for each period. As a result of the fair valuation analysis performed, the Company recorded a loss of $2.7 million during the first quarter of 2008, which was deemed to be other-than-temporary and was recorded as a charge against income.

Due to the Company s belief that the market for both government-backed and privately insured student loans may take in excess of twelve months to fully recover, the Company has classified its $100.3 million investment in these securities as non-current and this amount is included in Long-term Investments in the Consolidated Condensed Balance Sheets at September 30, 2008. Based on recent successful auctions experienced in the market and discussions with third party financial advisors, the Company believes that the market for the remaining balance of its ARS investments totaling $8.3 million, which consists of tax-exempt bond investments, will recover, or that these bonds will be called at par, within the next twelve months and that the Company will be able to liquidate these investments within that time frame. Accordingly, this amount is classified as current and is included in Short-term Investments in the Consolidated Condensed Balance Sheets at September 30, 2008.

(6) <u>Contingencies and Commitments</u>

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

During 1995, a joint venture, Tutor-Saliba-Perini, or the Joint Venture, in which Perini Corporation, or Perini, was the 40% minority partner and Tutor-Saliba Corporation, or Tutor-Saliba, of Sylmar, California was the 60% managing partner, filed a complaint in the Superior Court of the State of California for the County of Los Angeles against the Los Angeles County Metropolitan Transportation Authority, or LAMTA, seeking to recover costs for extra work required by LAMTA in connection with the construction of certain tunnel and station projects. In 1999, LAMTA countered with civil claims under the California False Claims Act (CFCA) against the Joint Venture, Tutor-Saliba and Perini jointly and severally (together, TSP). In September, 2008, Tutor-Saliba merged with Perini.

Claims concerning the construction of LAMTA projects were tried in 2001. During the trial, based on the Joint Venture's alleged failure to comply with the court's discovery orders, the judge issued terminating sanctions that resulted in a substantial judgment against TSP.

TSP appealed and, in January 2005, the State of California Court of Appeal reversed the trial court's entire judgment and found that the trial court judge had abused his discretion and had violated TSP's due process rights, and had imposed impermissibly overbroad terminating sanctions. The Court of Appeal also directed the trial court to dismiss LAMTA's claims that TSP had violated the Unfair Competition Law ("UCL") because LAMTA lacked standing to bring such a claim, and remanded the Joint Venture's claims against LAMTA for extra work required by LAMTA and LAMTA's counterclaim under the CFCA against TSP to the trial court for further proceedings, including a new trial.

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

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

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

In December 2006, in the trial of the first issue, which arose out of a 1994 change order involving a Disadvantaged Business Enterprise subcontractor pass-through claim, the jury found that the Joint Venture had submitted two false claims for payment and had breached its contract with LAMTA and awarded LAMTA $111,651 in direct damages. The court has awarded penalties of $10,000 for each of the two claims and will treble the damages awarded by the Jury. A final judgment with respect to these claims will not be entered until the entire case has been resolved and is subject to appeal. In addition, the court will determine whether there were any violations of the UCL, but has deferred its decision on those claims until the case is completed. Each such violation may bear a penalty of up to $2,500.

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

In December 2007, the court dismissed both TSP s and LAMTA s affirmative work restriction claims.

In September 2008, the Court tentatively ruled that LAMTA s Disadvantaged Business Enterprise (DBE) claims are sufficient to proceed to trial although the Court has not finally so ruled. The Court also agreed to hear TSP s argument that LAMTA s DBE program was/is unconstitutional thus making LAMTA s DBE claims unenforceable.

A schedule for addressing the remainder of the case thereafter has not yet been established. The court continues to indicate that it would like the parties to resolve the entire case through mediation. To date, efforts by the parties to settle the case have not been successful.

The ultimate financial impact of the lawsuit is not yet determinable. Therefore, no provision for loss, if any, has been recorded in the financial statements.

(b) 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. MHD has asserted counterclaims for liquidated damages.

Certain of PKC's claims have been presented to a Disputes Review Board, or DRB, which consists of three construction experts chosen by the parties. To date, the various DRB panels have issued six awards and several interim decisions on PKC s claims. The second panel (the Second DRB) has ruled on a binding basis that PKC is entitled to additional compensation for the first portion of its contract time delay claim in the amount of $17.4 million. The Massachusetts Superior Court approved PKC's request to confirm the DRB's $17.4 million award. The

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

***(b) Perini/Kiewit/Cashman Joint Venture-Central Artery/Tunnel Project Matter* (continued)**

Massachusetts Appeals Court affirmed that decision.

The Second DRB has also ruled on a binding basis that PKC is entitled to four additional compensation awards, less credits, totaling $39.8 million for impacts and inefficiencies caused by MHD to certain of PKC s work. The first two such awards, totaling $17.1 million, have been confirmed by the Massachusetts Superior Court and were not appealed. MHD filed actions in the Superior Court seeking to vacate the other two awards, and PKC answered, seeking to confirm them. MHD later dropped its substantive objection to confirmation of these two awards, but continues to contest the payment of any interest on any of the five awards.

To date, the current DRB panel (the Third DRB), has issued two interim decisions and one award. The first interim decision, issued in December, 2007, held that the second portion of PKC s claim for contract time delay is not barred or limited by the 10% markups for overhead and profit on change orders. The second interim decision, issued in January, 2008, held that the date of the project s substantial completion, for purposes of calculating any liquidated damages, is August 23, 2003. Most recently, the Third DRB has issued an award to PKC in the amount of $50.7 million (exclusive of interest) for further impacts and inefficiencies. Of that total award, $41.1 million was issued as a binding arbitration award, and the remaining $9.6 million was issued as a non-binding recommendation.

It is PKC s position that the remaining claims to be decided by the DRB on a binding basis have an anticipated value of approximately $40 million (exclusive of interest). MHD disputes that the remaining claims before the DRB may be decided on a binding basis. Hearings before the DRB are scheduled to occur throughout 2008 and 2009.

Management has made an estimate of the total anticipated cost recovery on this project and it is included in revenue recorded to date. To the extent new facts become known or the final cost recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

(c) Investigation by U.S. Attorney for Eastern District of New York

In 2001, the Company received a grand jury subpoena for documents in connection with an investigation by the U.S. Attorney s Office for the Eastern District of New York. The investigation concerns contracting between the Company s civil division and disadvantaged, minority, and women-owned businesses in the New York City area construction industry. The Company has cooperated with the U. S. Attorneys Office in the investigation and produced documents pursuant to the subpoena in 2001 and 2002. In August 2006 and May 2007, the Company received additional grand jury subpoenas for documents in connection with the same investigation. The Company subsequently produced documents pursuant to those subpoenas, and continues to cooperate in the investigation. It is the Company s understanding that lawyers for two former Perini Civil Division employees also are in separate discussions with the U.S. Attorney s Office related to the investigation. On January 8, 2007, the Company was informed by the U.S. Attorney s Office that the Company meets the definition of subject in the United States Attorney's Manual. That definition is a person whose conduct is within the scope of the grand jury's investigation. At the same time, the U.S. Attorney s Office also wrote to the Company that "Perini has been cooperatively engaged in discussions with this office and that we are considering a civil settlement with regard to Perini. The Company has been in active discussions with the U.S Attorney s Office concerning a civil settlement of this matter.

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

(c) Investigation by U.S. Attorney for Eastern District of New York **(continued)**

The Company recorded a charge in 2007 with respect to this matter which materially affected the operating results of the civil segment. Since this matter has not been settled, the potential for a further charge (or credit) exists; however, management believes that the amount of such further charge or credit, if any, will not be material to the operating results of the Company or to the civil segment.

(d) Long Island Expressway/Cross Island Parkway Matter

The Company reconstructed the Long Island Expressway/Cross Island Parkway Interchange for the New York State Department of Transportation (the NYSDOT). The $130 million project (the Project) included the complete reconstruction and/or new construction of fourteen bridges and numerous retaining and barrier walls; reconfiguration of the existing interchange with the addition of three flyover bridges; widening and resurfacing of three miles of highway; and a substantial amount of related work. The Company substantially completed the Project in January 2004, and its work on the Project was accepted by the NYSDOT as finally complete in February 2006.

Because of numerous design errors, undisclosed utility conflicts, lack of coordination with local agencies and other interferences for which the Company believes that the NYSDOT is responsible, the Company suffered impacts involving every structure. As a result, the Company incurred significant additional costs in completing its work and suffered a significantly extended Project schedule.

The initial Project schedule contemplated substantial completion in 28 months from the Project commencement in September 2000. Ultimately, the time for substantial completion was extended by the NYSDOT by 460 days. While the Project was under construction, the NYSDOT made $8.5 million of payments to the Company as additional compensation for its extended overhead costs.

The Company sought approximately $33 million of additional relief from the NYSDOT for the delay and extra work it experienced. The NYSDOT, however, declined to grant the Company any further relief. Moreover, the NYSDOT stated it will take an adjustment of approximately $2.5 million of the $8.5 million it previously paid to the Company for its extended overhead costs. Since the NYSDOT has accepted the Company s work as complete, it must close out the Project contract. The Company is actively pursuing the closeout of this Contract with NYSDOT and hopes to achieve the same within the next few months.

After the closeout of the Project contract by the NYSDOT, the Company will file a formal claim with the NYSDOT for the delay and extra work it experienced, as well as for appropriate portions of the adjustment taken by the NYSDOT to the amounts previously paid to the Company for its extended overhead costs, as a condition precedent to filing an action in the New York Court of Claims.

Management has made an estimate of the total anticipated cost recovery on the Project and it is included in revenue recorded to date. To the extent new facts become known or the final cost recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

(e) The Cosmopolitan Resort and Casino Matter

The Company is engaged in the construction of the Cosmopolitan Resort and Casino, a mixed-use casino/hotel development project in Las Vegas, Nevada, (the Project) . On January 16, 2008, Deutsche Bank AG (the Bank) delivered a notice of loan default to Cosmo, Senior Borrower LLC (Cosmo), then the Owner/Developer of the Project. Subsequently, the Bank foreclosed against the property and, as of August 29, 2008, Nevada Property 1 LLC (NP1) acquired title to the Project. Subsequently, NP1 notified the Company that it elected to have the Company continue with the performance of the work, and that it assumed the obligations of Cosmo under the construction contract for the Project.

The Company had an interim commitment from the Bank under which the Bank continued to pay the Company for performing construction work on the Project on a monthly basis. The Company has requested the Bank to reaffirm that commitment pending the Company s receipt of assurances of financing from NP1 for future payments. Construction work continues on the Project and all current amounts due the Company have been paid pursuant to the terms of the construction contract.

On August 14, 2008, the parties executed an amendment to the Project contract increasing the contract value and setting the guaranteed maximum price at approximately $2.3 billion for the Project. The Project currently is expected to be completed in early 2010. As of September 30, 2008, approximately $1.15 billion of work remained to be performed by the Company under the construction contract.

The ultimate financial impact of this matter, if any, is not yet determinable. Therefore, no provision for loss or contract profit reduction, if any, has been recorded in the financial statements.

(f) Queensridge

Perini Building Company, Inc. (PBC) was the general contractor for the construction of One Queensridge Place, a condominium project in Las Vegas, Nevada. The developer of the project, Queensridge Towers, LLC / Executive Home Builders, Inc. (Queensridge), has failed to pay PBC for work which PBC and its subcontractors performed on the project. The subcontractors have brought claims against PBC and have filed liens on the property in the amount of approximately $25 million. PBC has also filed a lien on the property in the amount of $24 million, representing unpaid contract balances and additional work, which is subordinate to a pre-existing security interest of the lender as to all amounts over $11.2 million. Through an action in the Clark County District Court in Nevada, PBC has asked the court to consolidate all of the claims into one proceeding and to compel Queensridge and the subcontractors to participate in binding arbitration of all of those claims per the requirements of the contract. The court has advised that it will not act on the Motion to Compel Arbitration until it rules on several other pending motions. To date, efforts by the parties to settle the matter have not been successful.

Management has made an estimate of the total anticipated recovery on this project and it is included in revenues recorded to date. To the extent new facts become known or the final recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

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PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

(g) Gaylord Hotel and Convention Center

In 2005, Gaylord National, LLC (Gaylord), as Owner, and Perini Building Company, Inc. (PBC) /Tompkins Builders, Joint Venture (PTJV), as Construction Manager, entered into a contract (Contract) to construct the Gaylord National Resort and Convention Center (Project) in Maryland. PBC is the managing partner of the joint venture. The Project included 2000 hotel rooms, a spa, swimming pool, restaurants, a convention center and other meeting space, surface and structural parking, site work, a central utility plant and various other elements.

PTJV has requested that Gaylord pay the amounts that PTJV asserts are due pursuant to the Project Contract. On September 10, 2008, the Owner informed PTJV, inter alia, that it disputes payment of such amounts and set forth certain claims against PTJV.

On September 18, 2008, PTJV filed suit for $80 million against Gaylord and a petition for a lien in the Circuit Court for Prince George s County Maryland. PTJV will vigorously prosecute this action to obtain all of the compensation to which it is entitled. On October 10, 2008, Gaylord filed a separate suit in the same court against PTJV seeking approximately $65 million in damages. PTJV denies liability to Gaylord and will vigorously defend itself against Gaylord s action.

The Project currently is in a close out process with subcontractors. Some subcontractors have filed suits and lien petitions or have given notice of intent to claim a lien. PTJV is currently a party to several of those suits. Generally, the subcontractors seek payment from PTJV and Gaylord for sums which Gaylord has failed to pay PTJV. In addition, in the case of *Banker Steel v. Gaylord LLC,& Perini/Tompkins, JV*, which was also filed in the Circuit Court for Prince George s County, Maryland, PTJV alleges that Banker Steel owes PTJV approximately $3.8 million.

PTJV and Gaylord met for settlement discussions on September 19, 2008 and October 22, 2008 and active settlement discussions are ongoing. Management has made an estimate of the total anticipated recovery on this project and it is included in revenues recorded to date. To the extent new facts become known or the final recovery included in the claim settlement varies from this estimate, the impact of the change will be reflected in the financial statements at that time.

(h) Shareholder Litigation

(1) *Weitman v. Tutor, et al Matter*

On June 19, 2008, an individual named Nina Weitman filed a lawsuit in Superior Court of Middlesex County, Massachusetts, (*Weitman v. Tutor, et al.,* (Massachusetts Superior Court, Middlesex County, No. 08-2351) allegedly on behalf of herself and other shareholders of Perini Corporation (Perini), against Ronald N. Tutor, Robert Band, Raymond R. Oneglia, Michael R. Klein, William W. Brittain, Jr., Robert A. Kennedy, Peter Arkley and Robert L. Miller (collectively, the Individual Defendants); Perini Corporation itself; and Tutor-Saliba Corporation (Tutor-Saliba). Ms. Weitman reportedly owns seventeen (17) shares of Perini Corporation common stock. The complaint alleged generally that the Individual Defendants breached their fiduciary duties to Perini by agreeing to enter into the Merger Agreement with Tutor-Saliba. Specifically, the complaint alleged: that the proxy statement related to, among other things, the meeting of the Perini shareholders to approve the merger, did not provide shareholders with enough information regarding the merger; that the exchange ratio in the Merger Agreement wais not fair to the Perini shareholders; and that Perini s board of directors allegedly breached its fiduciary duties by, among other things, allegedly failing to examine strategic alternatives to the merger. The complaint sought, among other forms of relief, certification of the case as a class action, injunctive relief to

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

(h) Shareholder Litigation **(continued)**

(1) ***Weitman v. Tutor, et al Matter*** **(continued)**

enjoin the proposed merger, rescission in the event that the merger is consummated before a judgment in the case is entered, and damages.

The plaintiff had filed a motion seeking expedited procedures for its lawsuit. On August 13, 2008, the Superior Court issued an Order denying Plaintiff s motion for expedited procedures. Plaintiff did not file a motion to enjoin the Merger, which was completed on September 8, 2008.

In the Superior Court, Perini had moved to dismiss the complaint as to Perini and Tutor-Saliba had moved to dismiss the complaint as to Tutor-Saliba. On July 31, 2008, rather than responding to Perini s and Tutor-Saliba s motions to dismiss, plaintiff filed an Amended Complaint alleging new claims for aiding and abetting breach of fiduciary duties and conspiracy, and naming Trifecta Acquisition LLC as a new defendant. The defendants subsequently removed the case to the United States District Court for the District of Massachusetts, where it is now pending. Plaintiff has moved to remand the case to Massachusetts Superior Court, and the defendants have renewed their motions to dismiss that they initially filed in that Court. Those motions are scheduled to be heard on November 18, 2008.

(2) Isham and Rollman Securities Litigation Matters

Two putative class actions have been filed in the U.S. District Court for the District of Massachusetts on behalf of individuals who purchased Perini stock between November 2, 2006 and January 17, 2008, alleging securities fraud violations against Perini and company executives Ronald N. Tutor, Robert Band, Michael E. Ciskey and Kenneth R. Burk (collectively, the Isham/Rollman Individual Defendants). The first lawsuit was filed on August 18, 2008, by an individual named William B. Isham. On September 11, 2008, an individual named Marion Rollman filed the second lawsuit.

In both cases, the plaintiffs claim that Perini and the Isham/Rollman Individual Defendants violated sections 10(b) and 20(a) of the 1934 Exchange Act, as well as the SEC's Rule 10b-5. The complaints allege generally that the defendants purportedly made material misrepresentations or omissions in press releases and SEC filings regarding the future prospects for Las Vegas construction projects. The plaintiffs claim that the alleged misrepresentations or omissions had the effect of artificially inflating the value of Perini's stock. Plaintiffs further allege that stock sales by the Isham/Rollman Individual Defendants prior to disclosures related to the developer of one of the Las Vegas projects support the claims that the defendants misrepresented or omitted material facts regarding the future prospects of these projects. Plaintiffs seek certification of the matter as a class action, and damages allegedly incurred by Perini shareholders who had purchased stock during the putative class period. Scheduling orders have not yet been entered in these cases.

(3) ***Adams Derivative Lawsuit***

On October 7, 2008, an individual named Kathy Adams, allegedly derivatively on behalf of Perini Corporation, filed a suit in Middlesex County, Massachusetts, Superior Court (*Adams v. Tutor, et al.,* (Massachusetts Superior Court, Middlesex County, No. 08-3740)), against defendants Ronald N. Tutor, Willard W. Brittain, Jr., Michael Klein, Robert A. Kennedy, Raymond R. Oneglia, Robert L. Miller, Peter Arkley, Robert Band and C.L. Max Nikias, (collectively, the Adams Individual Defendants) as well as Perini itself as a nominal defendant. Adams did not make a demand on the Board of Directors before filing this derivative lawsuit.

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(6) Contingencies and Commitments (continued)

(h) Shareholder Litigation **(continued)**

(3) ***Adams Derivative Lawsuit*** **(continued)**

The Complaint alleges that the Adams Individual Defendants concealed the business prospects of certain of Perini's Las Vegas construction contracts, and that their sales of Perini stock in advance of the alleged corrective disclosure amounted to insider trading. Plaintiff alleges that the Adams Individual Defendants breached their fiduciary obligations, and that Perini has been damaged as a result. In addition to these allegations, the Complaint also alleges that the members of the Board of Directors are conflicted due to their alleged substantial likelihood of liability for the derivative claims, and that they lack sufficient independence with which to render a decision as to whether the Company should pursue the derivative claims, such that demand would have been a futile act.

The Complaint alleges six counts against the Adams Individual Defendants: (i) breach of fiduciary duty for failing to disclose the true business prospects of the Las Vegas construction contracts; (ii) abuse of control; (iii) gross mismanagement; (iv) waste of corporate assets; (v) unjust enrichment; and (vi) insider selling. On behalf of the Company, the plaintiff seeks money damages, injunctive relief, restitution and disgorgement of profits. The plaintiff also seeks attorneys fees, costs and expenses. To date, there has been no activity in this case subsequent to the filing of the Complaint.

The Company believes that it has meritorious defenses to all of the actions described in this Note 6(h) and intends to defend against them vigorously. However, the Company cannot predict the timing or outcome of these cases, or the possible effect on the Company s financial results.

(7) Stock-Based Compensation

The 2004 Stock Option and Incentive Plan, as amended and approved by the Company s stockholders, provides for the issuance of 5,500,000 shares of the Company s common stock. This plan allows these stock-based compensation awards to be granted in a variety of forms, including stock options, stock appreciation rights, restricted stock awards, unrestricted stock awards, deferred stock awards and dividend equivalent rights.

The Compensation Committee of the Company s Board of Directors has approved the grant of 2,170,000 restricted stock units under the 2004 Stock Option and Incentive Plan to certain of its executive officers, employees and directors. As of September 30, 2008, 669,999 restricted stock units were vested. Of the remaining 1,500,001 restricted stock units outstanding at September 30, 2008, 385,001 generally vest in equal installments on January 2, 2009 and 2010; 365,000 generally vest on January 2, 2010, and 750,000 vest on September 4, 2013. Of the 1,500,001 restricted stock units outstanding at September 30, 2008, 683,334 are subject only to the satisfaction of service requirements and the remaining 816,667 are subject to the satisfaction of both service requirements and achievement of certain pretax income performance criteria. Upon vesting, each restricted stock unit will be exchanged for one share of the Company s common stock. The aggregate grant date fair value of the restricted stock units is $65.6 million based on the closing price of the Company s common stock on the dates of grant. For the three month and nine month periods ended September 30, 2008, the Company recognized compensation expense of $2.5 million and $8.5 million, respectively, related to these restricted stock units and these amounts are included as a component of General and Administrative Expenses in the

Consolidated Condensed Statements of Income. At September 30, 2008, there was $26.2 million of unrecognized compensation cost related to the non-vested restricted stock units outstanding

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PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(7) Stock-Based Compensation (continued)

which, absent significant forfeitures in the future, will be recognized over a weighted average period of 4.1 years.

In September 2008, the Compensation Committee of the Company s Board of Directors granted 495,000 nonqualified stock options to certain employees under the Company s 2004 Stock Option and Incentive Plan. The options were granted at an exercise price of $26.19 per share, the fair market value of the Company s common stock on the date of grant, as defined. The options vest and are exercisable after five years and expire ten years from the date of grant. The grant date fair value of the stock options of $7.2 million was determined by utilizing the Black-Scholes-Merton option pricing model incorporating the following assumptions: exercise price of $26.19 per share, expected term of 7.5 years, volatility of 48.45%, annual rate of quarterly dividends of zero, and a risk-free interest rate of 3.52%. For both the three and nine month periods ended September 30, 2008, the Company recognized compensation expense of $0.1 million related to these stock options and these amounts are included as a component of General and Administrative Expenses in the Consolidated Condensed Statements of Income. At September 30, 2008, there was $7.1 million of unrecognized compensation cost related to the stock options outstanding which, absent significant forfeitures in the future, will be recognized over a weighted average period of 4.9 years.

A summary of stock-based compensation awards related to the Company s 2004 Stock Option and Incentive Plan for the nine months ended September 30, 2008 is as follows:

	Number of Shares	**Weighted Average Grant Date Fair Value of Restricted Stock Units**	**Exercise Price per Stock Option**	**Shares Available to Grant**
Outstanding at January 1, 2008	1,030,000	$32.47	-	1,407,626
Restricted stock units granted	825,000	$26.94	-	(825,000)
Stock options granted	495,000	-	$26.19	(495,000)
Restricted stock units vested and issued	(354,999)	$33.28	-	-
Common stock issued for Board of Directors compensation	-	-	-	(22,447)
Approved plan amendment	-	-	-	2,500,000
Reacquired	-	-		28,858
Outstanding at September 30, 2008	1,995,001	$29.23	$26.19	2,594,037

The aggregate intrinsic value of the restricted stock units outstanding at September 30, 2008 is approximately $38.7 million.

PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

(7) Stock-Based Compensation (continued)

Options outstanding at September 30, 2008 under the 2004 Stock Option and Incentive Plan and related weighted average price and life information is as follows:

Remaining Life (Years)	Grant Date	Options Outstanding	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
10	9/5/2008	495,000	-		