UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 28, 2007

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 1-12054

WASHINGTON GROUP INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**		**33-0565601** **(IRS Employer Identification No.)**
720 Park Boulevard, Boise, Idaho **(Address of principal executive offices)**		**83712** **(zip code)**
	(208) 386-5000 **(Registrant's telephone number, including area code)**	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

☒ Yes ☐ No

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

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

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

☐ Yes ☒ No

Number of shares of common stock outstanding at October 26, 2007: 29,329,426

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NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements. You can identify forward-looking statements by the use of terminology such as “may,” “will,” “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” “could,” “should,” “potential” or “continue,” or the negative or other variations thereof, as well as other statements regarding matters that are not historical fact. These forward-looking statements include, among others, statements concerning:

- Our business strategy and competitive advantages;
- Our expectations as to potential revenue from designated markets or customers;
- Our expectations as to operating results, cash flows, return on invested capital and net income;
- Our expectations as to new work and backlog;
- The markets for our services and products; and
- Our anticipated contractual obligations, capital expenditures and funding requirements.

Forward-looking statements are only predictions. The forward-looking statements in this report are subject to risks and uncertainties, including, among others, the risks and uncertainties identified in this report and other operational, business, industry, market, legal and regulatory developments, which could cause actual events or results to differ materially from those expressed or implied by the forward-looking statements.

Important factors that could prevent us from achieving the expectations expressed include, but are not limited to, our failure to:

- Manage and avoid delays or cost overruns on existing and future contracts;
- Maintain relationships with key customers, partners and suppliers;
- Successfully bid for, and enter into, new contracts on satisfactory terms;
- Successfully manage and negotiate change orders and claims with respect to existing and future contracts;
- Manage and maintain our operations and financial performance and the operations and financial performance of our current and future operating subsidiaries and joint ventures;
- Respond effectively to regulatory, legislative and judicial developments, including any legal or regulatory proceedings, affecting our existing contracts, including contracts concerning environmental remediation and restoration;
- Obtain and maintain any required governmental authorizations, franchises and permits, all in a timely manner, at reasonable costs and on satisfactory terms and conditions;
- Satisfy the restrictive covenants imposed by our revolving credit facility and surety arrangements;
- Maintain access to sufficient working capital through our existing revolving credit facility or otherwise; and
- Maintain access to sufficient bonding capacity.

Some other factors that may affect our businesses, financial position or results of operations include:

- Accidents and conditions, including industrial accidents, labor disputes, geological conditions, environmental hazards, weather and other natural phenomena;

- Special risks of international operations, including uncertain political and economic environments, acts of terrorism or war, potential incompatibilities with foreign joint venture partners, foreign currency fluctuations, civil disturbances and labor issues;

- Special risks of contracts with the government, including the failure of applicable governing authorities to take necessary actions to secure or maintain funding for particular projects with us, the unilateral termination of contracts by the government and reimbursement obligations to the government for funds previously received;

- The outcome of legal proceedings;

- Maintenance of government-compliant cost systems; and

- The economic well-being of our private and public customer base and its ability and intentions to invest capital in engineering and construction activities.

For a description of additional risk factors that may affect our businesses, financial position or results of operations, see “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q and “Business – Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2006 (“2006 Annual Report”).

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Revenue	$ 1,063,866	$ 824,354	$ 2,853,119	$ 2,542,753
Cost of revenue	(1,003,467)	(808,847)	(2,714,686)	(2,426,850)
Gross profit	60,399	15,507	138,433	115,903
Equity in income of unconsolidated affiliates	25,070	12,321	38,004	29,137
General and administrative expenses	(18,552)	(20,619)	(56,250)	(55,626)
Operating income	66,917	7,209	120,187	89,414
Interest income	2,178	2,968	6,945	8,106
Interest expense	(1,427)	(1,199)	(4,408)	(4,883)
Write-off of deferred financing fees	—	(5,063)	—	(5,063)
URS Corporation merger related costs	(1,600)	—	(8,250)	—
Other income (expense), net	23	(171)	(388)	(68)
Income before income taxes and minority interests	66,091	3,744	114,086	87,506
Income tax expense	(26,804)	(1,606)	(48,266)	(35,302)
Minority interests in (income) loss of consolidated entities, net of tax	(2,857)	2,175	(5,660)	(231)
Net income	$ 36,430	$ 4,313	$ 60,160	$ 51,973
Net income per share:				
Basic	$ 1.26	$ 0.15	$ 2.09	$ 1.81
Diluted	1.17	0.14	1.95	1.69
Shares used to compute net income per share:				
Basic	28,929	28,765	28,804	28,638
Diluted	31,152	30,706	30,877	30,680

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

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands)	September 28, 2007	December 29, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 211,517	$ 232,096
Restricted cash	85,278	65,475
Accounts receivable, including retentions of $15,457 and $16,443, respectively	300,552	358,957
Unbilled receivables	416,765	268,829
Investments in and advances to construction joint ventures	54,252	44,333
Deferred income taxes	89,848	106,681
Other	43,760	48,789
Total current assets	1,201,972	1,125,160
Investments and other assets		
Investments in unconsolidated affiliates	125,861	113,953
Goodwill	97,076	97,076
Deferred income taxes	217,443	227,901
Other assets	38,244	38,005
Total investments and other assets	478,624	476,935
Property and equipment		
Construction and mining equipment	201,948	162,776
Other equipment and fixtures	63,038	50,642
Buildings and improvements	10,988	12,781
Land and improvements	584	584
Total property and equipment	276,558	226,783
Less accumulated depreciation	(106,634)	(96,554)
Property and equipment, net	169,924	130,229
Total assets	$ 1,850,520	$ 1,732,324

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

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(UNAUDITED)

(In thousands, except per share data)	September 28, 2007	December 29, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and subcontracts payable, including retentions of $34,399 and $26,423, respectively	$ 381,776	$ 335,045
Billings in excess of cost and estimated earnings on uncompleted contracts	102,982	152,109
Accrued salaries, wages and benefits, including compensated absences of $61,011 and $53,695, respectively	196,214	192,307
Other accrued liabilities	37,587	38,563
Total current liabilities	718,559	718,024
Non-current liabilities		
Self-insurance reserves	73,417	68,392
Pension and post-retirement benefit obligations	84,653	87,449
Other non-current liabilities	63,784	50,263
Total non-current liabilities	221,854	206,104
Contingencies and commitments (Note 8)		
Minority interests	15,365	9,947
Stockholders' equity		
Preferred stock, par value $.01 per share, 10,000 shares authorized	—	—
Common stock, par value $.01 per share, 100,000 shares authorized; 30,471 and 30,001 shares issued, respectively	305	300
Capital in excess of par value	693,489	661,278
Retained earnings	243,652	183,492
Treasury stock, 1,163 and 1,159 shares, respectively, at cost	(67,489)	(67,251)
Accumulated other comprehensive income	24,785	20,430
Total stockholders' equity	894,742	798,249
Total liabilities and stockholders' equity	$ 1,850,520	$ 1,732,324

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Operating activities		
Net income	$ 60,160	$ 51,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Cash paid for reorganization items	(1,418)	(1,780)
Depreciation of property and equipment	27,890	22,002
Amortization of intangible assets	3,278	11,346
Amortization and write off of deferred financing fees	685	6,394
Non-cash income tax expense	44,906	35,007
Minority interests in income of consolidated subsidiaries, net of tax	5,660	231
Equity in income of unconsolidated affiliates, less dividends received	(8,454)	(15,892)
Gain on sale of interest in coal mine	(9,575)	—
Gain on sale of assets, net	(5,962)	(1,749)
Stock-based compensation expense	11,876	8,201
Excess tax benefit from exercise of stock options	(3,325)	(4,715)
Changes in operating assets, liabilities and other	(88,224)	(107,902)
Net cash provided by operating activities	37,497	3,116
Investing activities		
Property and equipment additions	(124,833)	(44,120)
Proceeds from sales of mining equipment leased back	45,239	—
Proceeds from sales of property and equipment	17,472	3,749
Proceeds from sale of interest in coal mine	13,500	—
Change in restricted cash	(19,803)	(226)
Business acquisition, net of cash acquired of $563	—	(6,103)
Contributions and advances to unconsolidated affiliates	32	(1,632)
Net cash used by investing activities	(68,393)	(48,332)
Financing activities		
Proceeds from exercise of stock options and warrants	10,858	84,297
Excess tax benefit from exercise of stock options	3,325	4,715
Purchase of warrants and treasury stock	—	(79,650)
Distributions to minority interests, net	(3,866)	(1,089)
Payoff of loan assumed in business acquisition	—	(1,668)
Net cash provided by financing activities	10,317	6,605
Decrease in cash and cash equivalents	(20,579)	(38,611)
Cash and cash equivalents at beginning of period	232,096	237,706
Cash and cash equivalents at end of period	$ 211,517	$ 199,095

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Net income	$ 36,430	$ 4,313	$ 60,160	$ 51,973
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	2,948	(54)	4,293	4,010
Other	(14)	207	62	266
Other comprehensive income, net of tax	2,934	153	4,355	4,276
Comprehensive income	$ 39,364	$ 4,466	$ 64,515	$ 56,249

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The terms "we," "us" and "our" as used in this quarterly report refer to Washington Group International, Inc. ("Washington Group International") and its consolidated subsidiaries unless otherwise indicated.

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Business

We are an international provider of a broad range of design, engineering, construction, construction management, facilities and operations management, environmental remediation and mining services to diverse public and private sector customers, including (i) engineering, construction and operations and maintenance services in nuclear and fossil power markets; (ii) engineering, construction, construction management and operations and maintenance services for the highway and bridge, airport and seaport, dam, tunnel, water resource and railway markets; (iii) contract mining, technical and engineering services for the metals, precious metals, coal, minerals and minerals processes markets; (iv) design, engineering, procurement, construction and construction management and operations and maintenance services for industrial companies; (v) design, engineering, construction, management and operations and closure services for weapons and chemical demilitarization programs for governmental customers; and (vi) comprehensive nuclear and other environmental and hazardous substance remediation as well as management and operations services for governmental and private-sector customers. In providing these services, we enter into two basic types of contracts: fixed-price and cost-type contracts. Fixed price contracts include lump-sum contracts providing for a fixed price for all work to be performed and fixed-unit-price contracts providing for a fixed price for each unit of work to be performed. Cost-type contracts include target-price contracts providing for an agreed upon price whereby we absorb all or a portion of cost escalations to the extent of our expected fee or profit and are reimbursed for costs which continue to escalate beyond our expected fee and share in the cost savings based on a negotiated formula and cost-type contracts providing for reimbursement of costs plus a fee. Engineering, construction management, maintenance and environmental and hazardous substance remediation contracts are typically awarded pursuant to a cost-type contract.

We participate in construction joint ventures, often as sponsor and manager of projects, which are formed for the sole purpose of bidding, negotiating and completing specific projects. We participate in one incorporated mining venture: MIBRAG mbH ("MIBRAG"), a company that operates lignite coal mines and power plants in Germany. During the three months ended September 28, 2007, we sold our 20 percent interest in Westmoreland Resources, Inc. ("Westmoreland Resources"), a coal mining company in Montana (see Note 4).

Basis of presentation

The accompanying condensed consolidated financial statements and related notes are unaudited. They have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The financial statements include the accounts of Washington Group International and all of its majority-owned subsidiaries and certain majority-owned construction joint ventures. Investments in unconsolidated construction joint ventures are accounted for using the equity method in the consolidated balance sheets, with our proportionate share of revenue, cost of revenue and gross profit included in the consolidated statements of income. Investments in unconsolidated affiliates are accounted for under the equity method. Intercompany transactions and accounts have been eliminated in consolidation.

The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2006 Annual Report. The accompanying condensed consolidated balance sheet at December 29, 2006 and related footnote disclosures included herein have been derived from the audited consolidated balance sheet and related footnotes included in the 2006 Annual Report.

In our opinion, the accompanying condensed consolidated financial statements reflect all adjustments of a recurring nature that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for the interim periods presented are not necessarily indicative of results of operations and cash flows to be expected for the full year.

Our fiscal year is the 52/53 weeks ending on the Friday closest to December 31.

The preparation of our condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. On an ongoing basis, we review our estimates based on information that is currently available. Changes in facts and circumstances may cause us to revise estimates.

Reclassification

The accompanying condensed consolidated balance sheet as of December 29, 2006 reflects the reclassification of unearned compensation – restricted stock of $8.4 million to capital in excess of par to conform to the 2007 presentation. The reclassification did not impact previously reported revenue, net income, total assets, total liabilities, stockholders' equity or cash flows.

2. PROPOSED MERGER OF WASHINGTON GROUP INTERNATIONAL WITH URS CORPORATION

On May 27, 2007, Washington Group International entered into a definitive Agreement and Plan of Merger (the "Agreement") with URS Corporation ("URS"). The Agreement provides that, upon the terms and subject to the conditions set forth in the Agreement, Washington Group International will become a wholly owned subsidiary of URS, and each outstanding share of our common stock will be converted into the right to receive 0.772 of a share of URS common stock and cash consideration of $43.80 per share. Consummation of the merger is subject to customary closing conditions and regulatory approvals, and approval by the stockholders of URS and Washington Group International. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 expired July 10, 2007. Washington Group International has scheduled a special meeting of its stockholders for consideration of the proposed merger transaction. The meeting was originally scheduled to be held on October 30, 2007, but has been postponed until November 9, 2007 to allow for the solicitation of additional votes in favor of the transaction in light of the fact that the transaction has not received sufficient votes for approval. Approval of the transaction requires the affirmative vote of the holders of a majority of all issued and outstanding shares of Washington Group International common stock. Unless otherwise indicated, the discussions in this document relate to Washington Group International as a standalone entity and do not reflect the impact of the proposed merger with URS.

Either party may terminate the Agreement if the merger is not consummated by December 27, 2007, unless the merger is extended to May 27, 2008; if the Washington Group International stockholders fail to approve the merger; if the URS stockholders fail to approve the issuance of URS common stock required to consummate the merger; if any governmental entity prohibits the merger; if the other party breaches any representation, warranty, covenant or agreement of the merger agreement; if the other party's board of directors withdraws its approval of the merger agreement; or if the party receives an unsolicited bona fide written acquisition proposal for 50 percent or more of its consolidated assets or 50 percent or more of its voting or economic interest that is more favorable to the party and its stockholders than the aforementioned merger.

If the Agreement is terminated, Washington Group International may be required in specified circumstances to pay a termination fee of $70.0 million to URS, and URS may be required in specified circumstances to pay a termination fee of $70.0 million to Washington Group International. For additional information regarding the merger, please refer to the Schedule 14A, amended, which contains the joint proxy statement/prospectus and Agreement filed by Washington Group International and URS on October 1, 2007 in connection with the merger.

As of September 28, 2007, we had incurred $8.3 million of merger related expenses associated with the proposed merger with URS principally comprised of investment banking, legal and accounting fees.

On October 1, 2007, a purported class action complaint was filed by putative shareholders of Washington Group International in the Court of Chancery in the State of Delaware in and for New Castle County against Washington Group International, certain of its officers and directors and URS challenging the proposed merger. The complaint (the "Complaint"), styled *Schultze Asset Management, LLC, et al.* (the "Plaintiff") *v. Washington Group International, Inc., et al*. (the "Defendants") (CA No. 3261), raised allegations on behalf of a purported class of our stockholders against the Defendants for alleged breaches of fiduciary duty in connection with the approval of the merger. The Complaint alleged that in determining to enter into the Agreement, the Defendants failed to take appropriate steps to obtain maximum value for stockholders and did not engage in an adequate, conflict-free, fair process to obtain maximum value for stockholders, that certain directors and officers engaged in self-dealing and suffered from conflicts of interests, and that the Defendants have failed to disclose all material information concerning the value of Washington Group International and the process leading to the Agreement. The Complaint sought to enjoin the consummation of the proposed merger or, alternatively, to rescind it.

On October 18, 2007, Plaintiff and the Defendants entered into a memorandum of understanding (the "MOU") with regard to the settlement of the Complaint. The MOU states that the parties will enter into a settlement agreement providing for, among other things, (i) Washington Group International to include certain disclosures in a Current Report on Form 8-K (filed on October 19, 2007); and (ii) a dismissal with prejudice and a complete settlement and release of all claims against the Defendants asserted in the Complaint, or that arise out of the Merger Agreement and related matters which have been or could have been asserted in the litigation. The settlement contemplated by the MOU is subject to confirmatory discovery, the execution by the parties of a definitive settlement agreement, and the approval of that agreement by the Court. The settlement contemplated by the MOU is not conditioned upon the consummation of the Merger.

3. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed similar to basic net income per share except that it reflects the potential dilution from dilutive common stock equivalents using the treasury stock method. Outstanding common stock equivalents primarily consist of options to purchase common stock, and restricted shares. During the three months ended September 28, 2007 and September 29, 2006, the number of anti-dilutive outstanding options excluded from the computation of diluted net income per share was 9,000 and 400,000, respectively. During the nine months ended September 28, 2007 and September 29, 2006, the weighted average number of anti-dilutive outstanding options and deferred shares excluded from the computation of diluted net income per share was 371,000 and 399,000, respectively.

A reconciliation between weighted average shares outstanding used in calculating basic and diluted net income per share is as follows:

(*In thousands*)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Basic weighted average shares outstanding	28,929	28,765	28,804	28,638
Effect of dilutive securities:				
Stock options	1,972	1,704	1,836	1,716
Stock warrants	—	—	—	161
Restricted shares and other	251	237	237	165
Diluted weighted average shares outstanding	31,152	30,706	30,877	30,680

4. VENTURES

Construction joint ventures

We participate in unconsolidated construction joint ventures that are formed to bid, negotiate and complete specific projects. The unconsolidated construction joint ventures are reflected in our condensed consolidated balance sheets as "Investments in and advances to construction joint ventures" using the equity method with our proportionate share of revenue, cost of revenue and gross profit included in our condensed consolidated statements of income. The size, scope and duration of joint-venture projects vary among periods. The tables below present the financial information of our unconsolidated construction joint ventures in which we do not hold a controlling interest but do exercise significant influence. At September 28, 2007 and December 29, 2006, certain construction joint ventures had liabilities in excess of assets due to accrued contract losses resulting in $29.6 million and $48.8 million, respectively, being included in our condensed consolidated balance sheets under the caption "Billings in excess of cost and estimated earnings on uncompleted contracts."

Combined financial position of unconsolidated construction joint ventures (*In thousands*)	September 28, 2007	December 29, 2006
Current assets	$ 245,329	$ 299,722
Property and equipment, net	1,326	7,734
Current liabilities	(250,923)	(322,414)
Net liabilities	$ (4,268)	$ (14,958)

Combined results of operations of unconsolidated construction joint ventures (*In thousands*)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Revenue	$ 230,067	$ 278,286	$ 657,773	$ 829,708
Cost of revenue	(226,830)	(278,500)	(678,852)	(814,578)
Gross profit (loss)	$ 3,237	$ (214)	$ (21,079)	$ 15,130

Washington Group International's share of results of operations of unconsolidated construction joint ventures (*In thousands*)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Revenue	$ 112,645	$ 123,902	$ 315,832	$ 375,739
Cost of revenue	(111,825)	(130,727)	(328,833)	(377,303)
Gross profit (loss)	$ 820	$ (6,825)	$ (13,001)	$ (1,564)

Beginning in 2004, contract losses have been recognized by a construction joint venture in which we have a 50 percent interest on a $399.4 million fixed-price roadway interchange and bridge project. Through September 28, 2007, we have recorded a total of $164.7 million of contract losses on this project. The losses have resulted from various developments including final design and other customer specifications, state regulatory agency requirements, material quantity and cost growth, higher subcontractor and labor costs, and the impact of schedule delays. We recorded $4.2 million and $29.7 million of additional losses during the three and nine months ended September 28, 2007, respectively, primarily related to increased costs and a $25.5 million charge during the three months ended June 29, 2007 due to our customer's decision to assert and withhold liquidated damages from payments due to the joint venture. These amounts compare to $15.0 million and $21.9 million of losses during the three and nine months ended September 29, 2006, respectively.

Pursuant to the fixed price agreement, the joint venture is liable for specified liquidated damages to the customers if certain project schedule milestones are not met. Although the joint venture had been operating pursuant to an understanding that the client would not withhold payment for liquidated damages, in June 2007 the client began to withhold payment from amounts otherwise due to the joint venture. Based on the current project completion schedule, we currently believe the client will assert and withhold liquidated damages totaling approximately $51.0 million (of which our share is $25.5 million). Claims for schedule extension have been submitted to the customers that the joint venture believes will eliminate or significantly reduce liabilities for liquidated damages. As of September 28, 2007, the contract was approximately 90 percent complete, measured on a cost-to-cost basis, and the highway will be available for use in November 2007.

To date, only a portion of the overall cost increases have been agreed to with the customers and acknowledged with change orders. Pending change orders and claims submitted to the customers total approximately $210.1 million (of which our share is $105.1 million) and an additional $26.7 million are in process (of which our share is $13.3 million). In response to our claims, certain counterclaims have been filed against us. We believe that we will realize significant recoveries once the claim process is completed. Because we have not been able to reach agreement on the change orders and claims, recoveries will be recognized only when it is probable they will result in additional revenue and the amounts can be reliably estimated. While the entire amount of the current estimated loss has been recognized, actual results may differ from our estimates.

Unconsolidated affiliates

At September 28, 2007 and December 29, 2006, we held ownership interests in unconsolidated affiliates that are accounted for under the equity method, the most significant of which is an incorporated mining venture: MIBRAG (50 percent). At December 29, 2006, we also held a significant ownership interest in another incorporated mining venture: Westmoreland Resources (20 percent). We provide consulting services to MIBRAG and, through March 30, 2007, we provided contract mining services to Westmoreland Resources.

Effective March 30, 2007, we agreed with Westmoreland Resources to conclude our contract mining services agreement, which provided for compensation to us in lieu of future services and the transfer of certain mining equipment, inventory, and reclamation liabilities to Westmoreland Resources. The transaction generated $14.0 million of cash and a net gain of $6.1 million, of which $1.0 million was deferred because we continued to own a 20 percent interest in Westmoreland Resources. This gain more than offset the operating loss incurred on the project in the three months ended March 30, 2007 of $4.3 million.

On September 28, 2007, we sold our 20 percent interest in Westmoreland Resources for a cash payment of $13.5 million. The sale generated a net gain of $9.6 million, including recognition of the remaining unamortized deferred gain of $0.8 million from the March 30, 2007 transaction discussed above. The $9.6 million gain on sale has been included in equity in income of unconsolidated affiliates in the accompanying condensed consolidated statements of income. The tables below present the financial information of our unconsolidated affiliates in which we do not hold a controlling interest but do exercise significant influence.

Combined financial position of unconsolidated affiliates (*In thousands*)	**September 28, 2007**	**December 29, 2006**
Current assets	$ 151,681	$ 153,581
Property and equipment, net	608,322	608,454
Other non-current assets	431,757	433,418
Current liabilities	(77,440)	(92,507)
Long-term debt, non-recourse to parents	(188,095)	(201,684)
Other non-current liabilities	(656,637)	(653,750)
Net assets	$ 269,588	$ 247,512

Combined results of operations of unconsolidated affiliates (*In thousands*)	**Three Months Ended**		**Nine Months Ended**	
	September 28, 2007	**September 29, 2006**	**September 28, 2007**	**September 29, 2006**
Revenue	$ 154,538	$ 161,593	$ 452,028	$ 440,011
Cost of revenue	(119,301)	(124,662)	(375,637)	(363,503)
Gross profit (loss)	$ 35,237	$ 36,931	$ 76,391	$ 76,508

5. CREDIT FACILITY

We have a Senior Secured Revolving Credit Facility (the "Credit Facility") that provides for up to $350.0 million in the aggregate of loans and other financial accommodations. The maturity date of the Credit Facility is June 14, 2010. The borrowing rate is LIBOR plus an additional margin of 2.00 percent or, at our option, prime plus an additional margin of 1.00 percent, subject in each case to a 0.25 percent reduction upon our obtaining a specified long-term debt rating. As of September 28, 2007 and December 29, 2006, the effective borrowing rate was 7.12 percent and 7.33 percent, respectively.

The Credit Facility also provides for other fees, including commitment and letter of credit fees, normal and customary for such credit agreements. Letter of credit fees are calculated using the applicable LIBOR margins stated above plus an issuance fee that is negotiated with the issuing bank. Commitment fees are calculated on the remaining borrowing capacity after subtracting any outstanding borrowings and letters of credit. The commitment fee is 0.50 percent (subject to a 0.25 percent reduction upon our obtaining a specified long-term debt rating). As of September 28, 2007, $129.8 million in face amount of letters of credit were issued and outstanding and no borrowings were outstanding leaving a borrowing capacity of $220.2 million under the Credit Facility. Subsequent to September 28, 2007, $20.0 million of letters of credit previously secured by restricted cash were replaced with letters of credit under the Credit Facility.

The Credit Facility contains financial covenants requiring the maintenance of specified financial and operating ratios, and specified events of default that are typical for a credit facility of this size, type and tenor. The Credit Facility also contains covenants that limit our ability and the ability of some of our subsidiaries to incur debt, grant liens, provide guarantees, make investments, merge with or acquire other companies and pay dividends. As of June 29, 2007, we were not in compliance with the fixed charge coverage ratio and the annual capital expenditures limit. Over the past year, new contracts to perform mining services for major international natural-resource companies have required significant capital expenditures for mining equipment. As a consequence of the capital expenditures and lower earnings during the three months ended June 29, 2007 due to a charge on the fixed-price highway project discussed in Note 4, we obtained waivers of the fixed charge coverage ratio and the annual capital expenditures limit through September 27, 2007. During the three months ended September 28, 2007, we sold and leased back $45.2 million of the mining equipment previously acquired. As a result of the sale/leaseback transactions and higher earnings during the three months ended September 28, 2007, we are in compliance with all of the financial covenants under the Credit Facility as of September 28, 2007. The Credit Facility is secured by substantially all of the assets of Washington Group International and our wholly owned domestic subsidiaries.

6. OPERATING SEGMENT INFORMATION

We operate through six business units, each of which comprises a separate reportable business segment: Power, Infrastructure, Mining, Industrial/Process, Defense and Energy & Environment. The reportable segments are separately managed, serve different markets and customers, and differ in their expertise, technology and resources necessary to perform their services.

Power provides engineering, construction and maintenance services in nuclear and fossil power markets for turnkey new power plant construction, plant expansion, retrofit and modification, decontamination and decommissioning, general planning, siting and licensing and environmental permitting.

Infrastructure provides engineering, construction, construction management, and operations and maintenance services for highways and bridges, airports and seaports, tunnels and tube tunnels, railroad and transit lines, water storage and transport, water treatment, site development and hydroelectric facilities. The business unit generally performs as a general contractor or as a joint venture partner with other contractors on domestic and international projects.

Mining provides contract mining, resource evaluation, mine planning, production scheduling, simulation modeling, equipment selection, engineering, mine reclamation and operations management to coal, oil sands, industrial minerals and metals markets.

Industrial/Process provides design, engineering, procurement, construction services and total facilities management for general manufacturing, pharmaceutical and biotechnology, oil production, gas treating, gas monetization, institutional buildings, food and consumer products, automotive, aerospace and pulp and paper industries.

Defense provides a complete range of technical services to the Department of Defense, including operations and management services, environmental and chemical demilitarization services, waste handling and storage, architectural engineering services and engineering, procurement and construction services for the armed forces.

Energy & Environment provides services to the Department of Energy, which is responsible for maintaining the nation’s nuclear weapons stockpile and performing environmental cleanup and remediation. The business unit also provides the United States (“US”) government with construction, contract management, supply-chain management, quality assurance, administrative and environmental cleanup and restoration services. Energy & Environment provides safety management consulting and waste and environmental technology and engineered products, including radioactive waste containers and technical support services.

The accounting policies of the segments are the same as those described in Note 2, “Significant Accounting Policies,” of the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2006 Annual Report. We evaluate performance and allocate resources based on segment operating income. Segment operating income is total segment revenue reduced by segment cost of revenue and includes equity in income of unconsolidated affiliates. Intersegment and other unallocated operating costs principally consist of unallocated costs of our self-insurance program and company-wide development initiatives.

SEGMENT OPERATING INFORMATION

(*In thousands*)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Revenue				
Power	$ 275,946	$ 170,686	$ 766,918	$ 580,604
Infrastructure	165,635	142,650	423,590	436,893
Mining	63,123	54,264	177,888	120,674
Industrial/Process	200,026	121,205	512,318	371,429
Defense	160,560	145,716	449,620	438,850
Energy & Environment	198,839	187,277	522,432	592,495
Intersegment, eliminations and other	(263)	2,556	353	1,808
Total revenue	$ 1,063,866	$ 824,354	$ 2,853,119	$ 2,542,753
Gross profit (loss)				
Power	$ 15,980	$ 11,643	$ 45,406	$ 33,979
Infrastructure	5,802	(18,154)	(7,422)	(19,131)
Mining	2,568	174	8,535	(9,723)
Industrial/Process	3,786	(3,093)	9,937	3,221
Defense	13,281	10,744	39,253	35,292
Energy & Environment	19,247	14,370	42,663	75,182
Intersegment and other unallocated operating costs	(265)	(177)	61	(2,917)
Total gross profit	$ 60,399	$ 15,507	$ 138,433	$ 115,903
Equity in income (loss) of unconsolidated affiliates				
Power	$ 45	$ (7)	$ 77	$ (30)
Infrastructure	408	394	1,089	1,037
Mining	23,712	9,618	33,546	24,929
Industrial/Process	(20)	237	497	556
Defense	—	—	—	—
Energy & Environment	925	2,079	2,795	2,645
Total equity in income of unconsolidated affiliates	$ 25,070	$ 12,321	$ 38,004	$ 29,137
Operating income (loss)				
Power	$ 16,025	$ 11,636	$ 45,483	$ 33,949
Infrastructure	6,210	(17,761)	(6,333)	(18,094)
Mining	26,280	9,792	42,081	15,205
Industrial/Process	3,766	(2,855)	10,434	3,777
Defense	13,281	10,744	39,253	35,292
Energy & Environment	20,172	16,449	45,458	77,828
Intersegment and other unallocated operating costs	(265)	(177)	61	(2,917)
Corporate general and administrative expenses	(18,552)	(20,619)	(56,250)	(55,626)
Total operating income	$ 66,917	$ 7,209	$ 120,187	$ 89,414

Assets as of (*In thousands*)		**September 28, 2007**		**December 29, 2006**
Power	$	209,214	$	126,266
Infrastructure		191,573		165,390
Mining		326,191		270,362
Industrial/Process		207,197		128,567
Defense		116,710		107,917
Energy & Environment		252,006		347,875
Corporate and other		547,629		585,947
Total assets	$	1,850,520	$	1,732,324

7. INCOME TAXES AND ADOPTION OF FIN 48

The effective tax rates for the three and nine months ended September 28, 2007 were 40.6 percent and 42.3 percent, respectively. Excluding the impact of the URS merger related costs, which are not deductible for income tax purposes, the effective income tax rates were 39.6 percent and 39.1 percent for the three and nine months ended September 28, 2007, respectively. The effective tax rates for the three and nine months ended September 29, 2006, were 42.9 percent and 40.3 percent, respectively.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes* ("FIN 48"). FIN 48 prescribes a more-likely-than-not recognition threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties and disclosure. An uncertain income tax position is not recognized if it has less than a 50 percent likelihood of being sustained.

We adopted the provisions of FIN 48 effective December 30, 2006. As of December 29, 2006, we had recognized tax benefits for $22.3 million of tax deductions that we have concluded do not meet the more-likely-than-not threshold for financial statement recognition. As a result, the adoption of FIN 48 resulted in recording an increase to other non-current liabilities and a charge to capital in excess of par value of $5.8 million. In addition, changes in the unrecognized tax benefit would have no impact on the effective tax rate in future periods.

We recognize interest and penalties accrued related to unrecognized tax liabilities in income tax expense. We had $1.0 million accrued for the payment of interest at December 29, 2006. Upon adoption of FIN 48 on December 30, 2006, no change in our accrual for interest and penalties was required.

We are subject to taxation in the US and various states and foreign jurisdictions. Our returns for 2002 and 2003 are currently under examination by the Internal Revenue Service ("IRS"). During the three months ended June 29, 2007, we received notices of proposed adjustments from the IRS related to the 2002 and 2003 examination. One of the proposed adjustments, which we had anticipated, relates to our treatment of cancellation of indebtedness income ("CODI") associated with our reorganization in 2002 which treatment preserved approximately $259 million of net operating loss carryforwards and approximately $17 million of alternative minimum tax credit carryforwards. These tax attributes have resulted in a reduction of income taxes paid of approximately $40 million through September 28, 2007. In addition, approximately $67 million of deferred tax assets remain related to future utilization of net operating loss and tax credit carryforwards. We believe our interpretation of the law, which is supported by an independent tax opinion, and our treatment of CODI on our tax returns was and remains correct and that the IRS' interpretation is not appropriate based on the law and our facts and circumstances. We believe the resolution of the proposed adjustments will not result in a material change to our results of operations and financial condition and liquidity. With few exceptions, we are no longer subject to US federal, state, local or foreign examinations by tax authorities for years before 2002.

8. CONTINGENCIES AND COMMITMENTS

Contract related matters

We have cost-type contracts with the US government that require the use of estimated annual rates for indirect costs. The estimated rates are analyzed periodically and adjusted based on changes in the level of indirect costs we expect to incur and the volume of work we expect to perform. The cumulative effect of changes to estimated rates is recorded in the period of the change. Additionally, the allowable indirect costs for US government cost-type contracts are subject to adjustment upon audit by the US government. To the extent that these audits result in determinations that costs claimed as reimbursable are not allowable costs, or were not allocated in accordance with federal regulations, we could be required to reimburse the government for amounts previously received. Audits by the US government of indirect costs are complete through 2003. Audits of 2004, 2005 and 2006 indirect costs are in process. The US government is also in the process of auditing insurance related costs reimbursed under government contracts for periods ranging from 1998 through 2006.

US Government Cost Accounting Standards and other regulations also require that accounting changes, as defined by Federal Regulations, be evaluated for potential impact to the amount of indirect costs allocated to government contracts and that cost impact statements be submitted to the US government for audit. Cost impact statements through 1998 have been audited by the US government and settled. We are in the process of preparing cost impact statements for 1999 through 2006.

While we have recorded reserves for amounts we believe are owed to the US government under cost-type contracts, actual results may differ from our estimates.

Letters of credit

In the normal course of business, we cause letters of credit to be issued in connection with contract performance obligations that are not required to be reflected in the accompanying condensed consolidated balance sheets. We are obligated to reimburse the issuer of such letters of credit for any payments made thereunder. At September 28, 2007 and December 29, 2006, $154.1 million and $148.1 million, respectively, in face amount of letters of credit were outstanding. As of September 28, 2007, $129.8 million of the outstanding letters of credit were issued under the Credit Facility and $20.0 million of letters of credit were secured by restricted cash. Subsequent to September 28, 2007, the $20.0 million of letters of credit previously secured by restricted cash were replaced with letters of credit under the Credit Facility.

Legal Matters

Litigation and Investigation related to USAID Egyptian Projects. In 2002, the Inspector General for the US Agency for International Development ("USAID") requested documentation about and made inquiries into the contractual relationships between one of our US joint ventures and a local construction company in Egypt. The focus of the inquiry was whether the structure of our business relationship with the Egyptian company violated USAID contract regulations with respect to source, origin, and nationality requirements. In January 2004, we entered into an agreement with USAID whereby we agreed to undertake certain compliance and training measures and USAID agreed that we were presently eligible for USAID contracts, including host-country projects, and were not under threat of suspension or debarment arising out of matters covered by the USAID inquiry. We satisfactorily completed that training effective November 22, 2004, and, as a result, are currently in good standing to bid on all USAID projects.

In March 2003, we were notified by the Department of Justice that the US government was considering civil litigation against us for potential violations of the USAID source, origin, and nationality regulations in connection with five of our USAID-financed host-country projects located in Egypt beginning in the early 1990s. Following that notification, we responded to inquiries from the Department of Justice and otherwise cooperated with the government's investigation. In November 2004, the government filed an action in the US District Court for the District of Idaho against us and the companies referred to above with respect to the Egyptian projects (the "Idaho Action"). The Idaho Action was brought under the Federal False Claims Act, the Federal Foreign Assistance Act of 1961, and common law theories of payment by mistake and unjust enrichment. The complaint seeks damages and civil penalties for violations of the statutes and asserts that the government is entitled to a refund of all amounts paid to us and the other defendants under the specified contracts. The government alleges that approximately $373.0 million was paid under those contracts. We deny any liability in the action and contest the government's damage allegations and its entitlement to any recovery. All projects were completed and turned over for operation.

Further, on March 23, 2005, we filed a Motion to Enforce the Confirmation Order in the Bankruptcy Court in Nevada, and a Motion to Dismiss or Stay the Action in the Idaho Court pending resolution of the proceedings in the Bankruptcy Court. In the filings in the Bankruptcy Court, we sought dismissal of the government's claims pursuant to the Confirmation Order (and other relevant orders of the Bankruptcy Court) because of the government's failure to give appropriate notice or otherwise preserve those claims. On August 30, 2005, the Bankruptcy Court granted our Motion to Enforce the Confirmation Order, in total, ruling that all of the government's claims (as set forth in the complaint in the Idaho Action) are barred. On November 9, 2005, the Bankruptcy Court confirmed its decision with a written order and detailed findings of fact. The government appealed the Bankruptcy Court's order to the US District Court for the District of Nevada. On March 22, 2006, the judge in the Idaho Action stayed that action during the pendency of the government's appeal of the Bankruptcy Court's ruling.

On December 29, 2006, the District Court in Nevada disagreed with the specific grounds on which the Bankruptcy Court had determined that the Government's statutory claims were barred, and on that basis reversed the Bankruptcy Court's order and remanded the matter back to the Bankruptcy Court for further proceedings. In his order, the District Court judge specifically noted that on remand, "[t]he Bankruptcy Court may choose among other things, to address whether the Idaho claims are barred for any other reasons, or are otherwise affected by WGI's Bankruptcy proceedings." We intend to renew our motion that the Government's claim in the Bankruptcy Court is nonetheless barred under different theories than those initially addressed by the Bankruptcy Court. On February 23, 2007, the US District Judge reaffirmed that the Idaho Action will remain stayed until the Bankruptcy Court determines whether the government's claims in the Idaho Action are barred. On August 29, 2007, the Bankruptcy Court (Judge Zive) conducted a scheduling/status conference. At that conference, the court inquired about settlement possibilities and encouraged the parties to engage in settlement discussions. In addition, the court directed the parties to meet and confer on how our motions that the Government's claims are barred should proceed in terms of written and other discovery to be conducted, procedures for moving the motions toward disposition, and a potential schedule for hearings. The court also set an adversary scheduling conference for November 7, 2007, at which time the court will determine the scope of discovery and the timing of hearings, to the extent not agreed to by the parties.

Our joint venture for one of the five projects referred to above brought arbitration proceedings before an arbitration tribunal in Egypt in which it asserted an affirmative claim for additional compensation for the construction of water and wastewater treatment facilities in Egypt. The project owner, National Organization for Potable Water and Sanitary Drainage ("NOPWASD"), an Egyptian government agency, asserted in a counterclaim that by reason of alleged violations of the USAID source, origin and nationality regulations, and alleged violations of Egyptian law, our joint venture should forfeit its claim, pay damages of approximately $6.0 million and the owner's costs of defending against the joint venture's claims in arbitration. We denied liability on the project owner's counterclaim. On April 17, 2006, the arbitration tribunal issued its award providing that the joint venture prevailed on its affirmative claims in the net amount of $8.2 million, and that NOPWASD's counterclaims are rejected. Our portion of any final award received by the joint venture would be approximately 45 percent. Because of potential issues related to appeals or collectibility of amounts awarded, no amounts related to this potential recovery have been recognized in the accompanying condensed consolidated financial statements.

Based on our assessment of the above-described matters, we recorded a charge of $8.2 million in the year ended December 31, 2004. Potential recovery on the arbitration award, or additional loss, if any, is not estimable.

New Orleans Levee Failure Class Action Litigation. From July 1999 through May 2005, we performed demolition, site preparation, and environmental remediation services for the US Army Corps of Engineers on the east bank of the Inner Harbor Navigation Canal (the "Industrial Canal") in New Orleans, Louisiana. All the work performed by us and our subcontractors was directed, supervised and approved by the US Army Corps of Engineers.

On August 29, 2005, Hurricane Katrina devastated New Orleans. The storm surge created by the hurricane overtopped the Industrial Canal levee and floodwall, flooding the Lower Ninth Ward and other parts of the city.

Between September 19, 2005 and September 28, 2007, 49 personal injury and property damage class action lawsuits have been filed in Louisiana State and Federal court naming us, of which 47 are currently pending. Other defendants include the US Army Corps of Engineers, the Board for the Orleans Parish Levee District, and its insurer, St. Paul Fire and Marine Insurance Company. Over 170 hurricane-related cases, including Washington Group International cases, have been consolidated in the Federal District Court for the Eastern District of Louisiana. The plaintiffs claim that defendants were negligent in their design, construction and/or maintenance of the New Orleans levees. The alleged class of plaintiffs are all residents and property owners who incurred damages arising out of the breach and failure of the hurricane protection levees and floodwalls in the wake of Hurricane Katrina. The allegation against us is that the work we performed adjacent to the Industrial Canal damaged the levee and floodwall and caused and/or contributed to breaches and flooding. The plaintiffs allege damages of $200 billion and demand attorneys' fees and costs. In the event we are found to have any liability in this matter, we have substantial general liability and professional liability insurance coverage. While the adequacy of the coverage cannot be predicted with certainty, we believe it is adequate to cover any potential liability which could be imposed on us as a result of this litigation.

We deny any liability and are vigorously defending these lawsuits. We did not design, construct, repair or maintain any of the levees or floodwalls that failed during or after Hurricane Katrina. There is no evidence that activities performed by us damaged the Industrial Canal levee or floodwall. We will pursue all contractual and equitable rights of indemnity and contribution and leverage all available challenges against class certification.

Based on the status and nature of this matter at this time, we cannot make an estimate of probable liability, if any. We performed the work adjacent to the Industrial Canal as a contractor for the US government and are pursuing dismissal from the lawsuits either as a result of a motion to dismiss for failure to state a claim or on a motion for summary judgment on the basis that government contractors are immune from liability. Until our motions are decided, class certification decisions are issued, and we know who our co-defendants will be, there is no reasonable basis for accurately predicting the outcome of these actions. Consistent with our accounting policy of accruing legal fees when probable and estimable, through September 28, 2007, we have accrued $11.1 million for estimated legal defense costs associated with these matters through the end of 2007. We believe a portion of these costs are reimbursable under our insurance program and have recorded a corresponding insurance receivable.

General Litigation. In addition to the foregoing, there are other claims, lawsuits, disputes with third parties, investigations, and administrative proceedings against us relating to matters in the ordinary course of our business activities that we do not expect to have a material adverse effect on our financial position, results of operations or cash flows. Government contracts, including work performed for US Government Agencies in Iraq, are subject to specific procurement regulations, contract provisions and a variety of other requirements relating to the formation, administration, performance and accounting for these contracts. As a result of our government contracting, claims for civil or criminal fraud may be brought by the government for violations of those regulations, requirements and statutes.

9. STOCK PURCHASE WARRANTS AND STOCK/WARRANT BUYBACK PROGRAM

During the nine months ended September 29, 2006, under a stock/warrant buy back program, we purchased 2,038,000 warrants at a cost of $35.0 million. In addition, 2,262,000 warrants were exercised generating proceeds of $71.2 million and the remaining 192,000 outstanding warrants expired on January 25, 2006. In connection with the stock/warrant buy-back program, we incurred $0.7 million of direct costs. Also during the three and nine months ended September 29, 2006 we purchased 204,000 and 910,000 shares of common stock for $12.0 million and $52.8 million, respectively.

As of September 28, 2007, our Board of Directors has authorized $275.0 million for purchases of stock and warrants under the program, of which $174.4 million has been expended. No purchases were made under the program during the three and nine months ended September 28, 2007.

10. STOCK COMPENSATION PLANS

We have two share-based compensation plans for officers, key employees and directors (See Note 13 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2006 Annual Report). The number of shares authorized for issuance under the plans as of September 28, 2007, totaled 8,402,000, 570,000 of which were available for future issuance. Our policy is to issue new shares of common stock to satisfy stock option exercises. All stock options granted must have an exercise price equal to or greater than the fair value of our common stock on the date the option is granted. Stock options granted have a contractual term of ten years and vest over three years. Restricted stock grants vest on the third anniversary of the date of grant. We recognize compensation cost for these options and restricted shares on a straight-line basis over the service period for the entire award. Unvested stock options and restricted stock grants become fully vested in the event of a change in control.

We measure the compensation cost associated with share-based payments by estimating the fair value of stock options as of the grant date using the Black-Scholes option pricing model. We believe that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the stock options granted. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards.

The weighted average fair values of stock-based arrangements on the date of grant and the assumptions used to estimate the fair value of the stock options were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Weighted average fair value of:				
Stock options granted	$ —	$ 21.40	$ 24.23	$ 22.30
Restricted stock awards	$ 82.37	$ 56.14	$ 60.13	$ 58.22
Average expected volatility	—	34.1%	32.9%	34.6%
Expected term (years)	—	5	6	5
Average risk-free interest rate	—	4.7%	4.5%	4.6%
Expected dividend yield	—	—	—	—

We estimate expected volatility based on historical daily price changes of our common stock for a period that approximates the current expected term of the options. The risk-free interest rate is based on the US Treasury yields in effect at the time of grant corresponding with the expected term of the options. The expected option term is the number of years we estimate that options will be outstanding prior to exercise considering vesting schedules and historical exercise experience. Beginning in 2007, we have elected to use the simplified method of estimating the expected option term pursuant to Securities and Exchange Commission Staff Accounting Bulletin 107, *Share-Based Payment*.

A summary of stock option and restricted stock award activity under our share-based compensation plans for the three and nine months ended September 28, 2007 is presented in the following tables:

Stock Options **Three Months Ended** (*In thousands, except per share data*)	**Number of Stock Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Yrs)**	**Aggregate Intrinsic Value**
Outstanding as of June 29, 2007	5,102	$ 34.00		
Granted	—	—		
Exercised	(26)	34.25		
Forfeited	(3)	55.96		
Outstanding as of September 28, 2007	5,073	$ 33.99	5.38	$ 273,036

Stock Options **Nine Months Ended** (*In thousands, except per share data*)	**Number of Stock Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Yrs)**	**Aggregate Intrinsic Value**
Outstanding as of December 29, 2006	5,101	$ 31.95		
Granted	354	59.62		
Exercised	(353)	28.77		
Forfeited	(29)	52.75		
Outstanding as of September 28, 2007	5,073	$ 33.99	5.38	$ 273,036
Exercisable as of September 28, 2007	4,355	$ 30.29	4.83	$ 250,528

Restricted Stock Awards **Three Months Ended** (*In thousands, except per share data*)	**Number of Restricted Shares**	**Remaining Contractual Life (Yrs)**	**Weighted Average Aggregate Intrinsic Value**
Outstanding as of June 29, 2007	370		
Granted	3		
Restrictions lapsed	—		
Forfeited	(1)		
Outstanding as of September 28, 2007	372	1.46	$ 12,498

Restricted Stock Awards **Nine Months Ended** (*In thousands, except per share data*)	**Number of Restricted Shares**	**Remaining Contractual Life (Yrs)**	**Weighted Average Aggregate Intrinsic Value**
Outstanding as of December 29, 2006	259		
Granted	131		
Restrictions lapsed	(5)		
Forfeited	(13)		
Outstanding as of September 28, 2007	372	1.46	$ 12,498

Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the options or the fair market value at the time of award of restricted shares. The total intrinsic value of stock-based arrangements exercised or on which the restrictions lapsed during the three months ended September 28, 2007 and September 29, 2006, was $1.3 million and $2.2 million, respectively. The total intrinsic value of stock-based arrangements exercised or on which the restrictions lapsed during the nine months ended September 28, 2007 and September 29, 2006, was $13.0 million and $17.8 million, respectively. As of September 28, 2007, total remaining unrecognized compensation cost related to unvested stock-based arrangements was $20.5 million and is expected to be recognized over a weighted average period of 1.92 years. During the three and nine months ended September 28, 2007, options to purchase 26,000 and 353,000 shares of common stock were exercised for proceeds of $0.9 million and $10.2 million, respectively. The total grant date fair value of stock options that vested during the three and nine months ended September 28, 2007 was $0.1 million and $8.5 million, respectively. The total grant date fair value of stock options that vested during the three and nine months ended September 29, 2006 was $0.2 million and $7.2 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes thereto in Item 1 of this report. The following analysis contains forward-looking statements about our future revenues, operating results and expectations. See "Note Regarding Forward-Looking Information" for a discussion of the risks and uncertainties affecting these statements preceding Item 1 of this report.

OVERVIEW

We are an international provider of a broad range of design, engineering, construction, construction management, facilities and operations management, environmental remediation and mining services. We offer our various services separately or as part of an integrated package throughout the life cycle of a customer's project. We serve our customers through six business units: Power, Infrastructure, Mining, Industrial/Process, Defense and Energy & Environment.

We are subject to numerous factors that have an impact on our ability to obtain new work. The Power business unit is dependent on the domestic demand for new power generating facilities and the modification of existing power facilities. Infrastructure is affected by the availability of public sector funding for transportation projects and the availability of bonding. Mining is affected by demand for coal, precious metals and other extractive resources. The Industrial/Process business unit is affected, in general, by the growth prospects in the US economy and more directly by the capital spending plans of its large customer base. Industrial/Process also provides services to the natural gas processing industry. Finally, the Defense and Energy & Environment business units are almost entirely dependent on the spending levels of the US government, in particular, the Departments of Defense and Energy.

On May 27, 2007, Washington Group International entered into a definitive Agreement and Plan of Merger with URS. The Agreement provides that, upon the terms and subject to the conditions set forth in the Agreement, Washington Group International will become a wholly owned subsidiary of URS, and each outstanding share of our common stock will be converted into the right to receive 0.772 of a share of URS common stock and cash consideration of $43.80 per share. Consummation of the merger is subject to customary closing conditions and regulatory approvals, and approval by the stockholders of URS and Washington Group International. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 expired July 10, 2007. Washington Group International has scheduled a special meeting of its stockholders for consideration of the proposed merger transaction. The meeting was originally scheduled to be held on October 30, 2007, but has been postponed until November 9, 2007 to allow for the solicitation of additional votes in favor of the transaction in light of the fact that the transaction has not received sufficient votes for approval. Approval of the transaction requires the affirmative vote of the holders of a majority of all issued and outstanding shares of Washington Group International common stock. Unless otherwise indicated, the discussions in this document relate to Washington Group International as a standalone entity and do not reflect the impact of the proposed merger with URS.

Either party may terminate the Agreement if the merger is not consummated by December 27, 2007, unless the merger is extended to May 27, 2008; if the Washington Group International stockholders fail to approve the merger; if the URS stockholders fail to approve the issuance of URS common stock required to consummate the merger; if any governmental entity prohibits the merger; if the other party breaches any representation, warranty, covenant or agreement of the merger agreement; if the other party’s board of directors withdraws its approval of the merger agreement; or if either party receives an unsolicited bona fide written acquisition proposal for 50 percent or more of its consolidated assets or 50 percent or more of its voting or economic interest that is more favorable to the party and its stockholders than the aforementioned merger.

If the Agreement is terminated, Washington Group International may be required in specified circumstances to pay a termination fee of $70.0 million to URS, and URS may be required in specified circumstances to pay a termination fee of $70.0 million to Washington Group International.

For additional information regarding the proposed merger, please refer to the Schedule 14A, as amended, which contains the joint proxy statement/prospectus and Agreement filed by Washington Group International and URS on October 1, 2007 in connection with the proposed merger.

On October 1, 2007, a purported class action complaint was filed by putative shareholders of Washington Group International in the Court of Chancery in the State of Delaware in and for New Castle County against Washington Group International, certain of its officers and directors and URS challenging the proposed merger. The complaint, styled *Schultze Asset Management, LLC, et al. v. Washington Group International, Inc., et al*. (CA No. 3261), raised allegations on behalf of a purported class of our stockholders against the Defendants for alleged breaches of fiduciary duty in connection with the approval of the merger. The Complaint alleged that in determining to enter into the Agreement, the Defendants failed to take appropriate steps to obtain maximum value for stockholders and did not engage in an adequate, conflict-free, fair process to obtain maximum value for stockholders, that certain directors and officers engaged in self-dealing and suffered from conflicts of interests, and that the Defendants have failed to disclose all material information concerning the value of Washington Group International and the process leading to the Agreement. The Complaint sought to enjoin the consummation of the proposed merger or, alternatively, to rescind it.

On October 18, 2007, Plaintiff and the Defendants entered into a memorandum of understanding with regard to the settlement of the Complaint. The MOU states that the parties will enter into a settlement agreement providing for, among other things, (i) Washington Group International to include certain disclosures in a Current Report on Form 8-K (filed on October 19, 2007); and (ii) a dismissal with prejudice and a complete settlement and release of all claims against the Defendants asserted in the Complaint, or that arise out of the Merger Agreement and related matters which have been or could have been asserted in the litigation. The settlement contemplated by the MOU is subject to confirmatory discovery, the execution by the parties of a definitive settlement agreement, and the approval of that agreement by the Court. The settlement contemplated by the MOU is not conditioned upon the consummation of the Merger.

CRITICAL ACCOUNTING POLICIES AND RELATED CRITICAL ACCOUNTING ESTIMATES

Our accounting and financial reporting policies are in conformity with GAAP. The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates, and the reported amounts of revenue and expenses during the reporting periods. Our significant accounting policies are described in Note 2, "Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Item 8 of our 2006 Annual Report, and our critical accounting policies and related critical accounting estimates are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 7 of our 2006 Annual Report. There were no changes in our critical accounting policies during the three and nine months ended September 28, 2007. As discussed in Note 7, “Income Taxes and Adoption of FIN 48” in Part I, Item 1 of this report, we adopted FIN 48 effective December 30, 2006. The following discussion of our significant revenue recognition policies has been included to enhance the discussion of financial results for the interim periods presented.

Revenue recognition. We follow the provisions of the American Institute of Certified Public Accountants Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* We recognize revenue on certain engineering and construction-type contracts using the percentage-of-completion method of accounting whereby revenue is recognized as performance under the contract progresses. For most of our fixed-price and target-price contracts, we use a cost-to-cost approach to measure progress towards completion. Under the cost-to-cost method, we make periodic estimates of our progress towards completion by comparing costs incurred to date with total estimated contract costs. Revenue is then calculated on a cumulative basis (project-to-date) as the total contract value multiplied by the current percentage complete. Revenue for a reporting period is calculated as the cumulative project-to-date revenue less project revenue recognized in prior periods. However, we defer profit recognition on fixed-price and certain target-priced contracts until progress is sufficient to estimate the probable outcome, which generally does not occur until the project is at least 20 percent complete. Fixed-price contracts accounted for 17 and 21 percent of our total revenue for the nine months ended September 28, 2007 and September 29, 2006, respectively.

For contracts that include significant material or equipment costs, we use an efforts expended method to measure progress towards completion based on labor hours, labor dollars or some other measurement of physical completion. For certain long-term contracts involving mining and environmental and hazardous substance remediation, progress towards completion is measured using the units of production method. Revenue from reimbursable or cost-plus contracts is recognized on the basis of costs incurred during the period plus the fee earned. Service-related contracts, including operations and maintenance and mining services contracts, are accounted for as services are performed. Revenue earned for each contract is based on an input or output measurement such as units of production, work hours, milestones achieved, or in some cases the passage of time, in proportion to the costs of performance. Award fees associated with US government contracts are initially estimated and recognized based on historical performance until the customer has confirmed the final award fee. Performance-based incentive fees are included in contract value when a basis exists for the reasonable prediction of performance in relation to established targets. When a basis for reasonable prediction does not exist, performance-based incentive fees are recognized when actually awarded by the customer.

The amount of revenue recognized depends on whether the contract or project is determined to be an "at-risk" or an "agency" relationship between the customer and us. Determination of the relationship is based on characteristics of the contract or the relationship with the customer. For at-risk relationships, the gross revenue and the costs of materials, services, payroll, benefits, non-income tax and other costs are recognized in our statement of income. For agency relationships, where we act as an agent for our customer, only fee revenue is recognized, meaning that direct project costs and the related reimbursement from the customer are netted.

The use of the percentage-of-completion method for revenue recognition requires the use of various estimates, including among others, the extent of progress towards completion, contract completion costs and contract revenue. Profit to be recognized is dependent upon the accuracy of estimated engineering progress, materials quantities, achievement of milestones and other incentives, penalty provisions, labor productivity and other cost estimates. Such estimates are dependent upon various judgments we make with respect to those factors, and some are difficult to accurately determine until the project is significantly underway. We recognize adjustments to profitability on contracts utilizing the percentage-of-completion method on a cumulative basis, when such adjustments are identified. We have a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenue and contract completion costs on our long-term engineering and construction-type contracts. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates. In limited circumstances, we may use the completed-contract method for specific contracts for which reasonably dependable estimates cannot be made or for which inherent hazards make the estimates doubtful. The completed contract method was not utilized during any of the periods presented.

Change orders and claims. Once contract performance is underway, we often experience changes in conditions, customer requirements, specifications, designs, materials and work schedule. Generally, a "change order" will be negotiated with our customer to modify the original contract to approve both the scope and price of the change. Occasionally, however, disagreements arise regarding changes, their nature, measurement, timing and other characteristics that impact costs and revenue under the contract. When a change becomes a point of dispute between our customer and us, we then consider it as a claim.

Costs related to change orders and claims are recognized when they are incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in a bona fide addition to contract value and can be reliably estimated. Estimated contract revenue associated with change orders may include amounts in excess of incurred costs (profit) when agreement with the customer has been reached. Claims are included in total estimated contract revenue, only to the extent that contract costs related to the claim have been incurred, when it is probable that the claim will result in a bona fide addition to contract value and can be reliably estimated, which generally occurs when amounts have been received or awarded. This can lead to a situation where costs are recognized in one period and revenue is recognized when customer agreement is obtained or claim resolution occurs, which can be in subsequent periods. Historical claim recoveries should not be considered indicative of future claim recoveries. No claim revenue was recognized during the three months ended September 28, 2007 and we recognized $5.4 million of claim revenue on a completed highway project in Nevada during the nine months ended September 28, 2007. No claim revenue was recognized during the three and nine months ended September 29, 2006.

Estimated losses on uncompleted contracts and changes in contract estimates. We record provisions for estimated losses on uncompleted contracts in the period in which such losses are identified. The cumulative effect of revisions to contract revenue and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties, adjustments for audit findings on US government contracts and contract closeout settlements. It is possible that there will be future and currently unknown significant adjustments to our estimated contract revenue, costs and gross margins for contracts currently in process. These adjustments are common in the construction industry and inherent in the nature of our contracts. These adjustments could, depending on the magnitude of the adjustments and/or the number of contracts being completed, materially, positively or negatively, affect our operating results in an annual or quarterly reporting period.

BUSINESS UNIT NEW WORK AND BACKLOG

New work represents the monetary value of a contract entered into with a customer that is binding on both parties and reflects the revenue, or equity in income, expected to be recognized from that contract.

Backlog represents the total accumulation of new work awarded less the amount of revenue, or equity in income, recognized to date on contracts at a specific point in time. We believe backlog is an indicator of future earnings potential. Although backlog reflects business that we consider to be firm, cancellations or reductions may occur and may reduce backlog and future revenue. We have a significant number of customers that consistently extend or add to the scope of existing contracts. We do not include any estimate of this ongoing work in backlog until awarded.

There are three unique aspects of our approach to recording new work and backlog:

- ***Government contracts*** - Most of our government contracts cover several years. However, funding for the contracts is subject to annual appropriations by Congress. To account for the risk that future amounts may not be appropriated, we only include the next two years of forecast revenue in our new work and backlog. Therefore, as time passes and appropriations occur, additional new work is recorded on existing government contracts.

- ***Mining contracts*** - Mining contracts span varying periods of time up to the life of the resource. For new work and backlog purposes, we limit the amount recorded to five years. Similar to our practices with government contracts, as time passes, we recognize additional new work as commitments for that future work are firmed up.

- ***At-risk and agency contracts*** **-** The amount of new work and related backlog recognized depends on whether the contract or project is determined to be an "at-risk" or "agency" relationship between the customer and us. For at-risk relationships, the expected gross revenue is included in new work and backlog. For relationships where we act as an agent for our customer, only the expected net fee revenue is included in new work and backlog.

New work, which represents additions to backlog for the period, is presented below for each business unit:

	Three Months Ended		**Nine Months Ended**	
NEW WORK *(In millions)*	**September 28, 2007**	**September 29, 2006**	**September 28, 2007**	**September 29, 2006**
Power	$ 277.6	$ 661.3	$ 911.5	$ 933.6
Infrastructure	79.5	189.5	356.4	351.0
Mining	105.3	38.6	525.4	301.9
Industrial/Process	118.3	74.8	531.7	487.9
Defense	178.6	112.1	481.8	340.1
Energy & Environment	325.0	157.3	824.2	452.8
Other	(0.2)	2.5	0.3	1.7
Total new work	$ 1,084.1	$ 1,236.1	$ 3,631.3	$ 2,869.0

Based on the nature of our new work and the bidding and awarding process, our new work can fluctuate significantly period-to-period. The increase in new work to $3.6 billion for the nine months ended September 28, 2007 from $2.9 billion in the prior year comparable period is primarily related to new mining contracts, an increase on a contract for construction of a cement plant in our Industrial/Process business unit, higher funding authorization for Defense’s chemical demilitarization projects, scope expansion at a nuclear reprocessing facility and the successful recompete of a contract to manage and operate a Department of Energy project in New York.

New work for the three and nine months ended September 28, 2007 includes the following significant contracts:

(In millions)	**Three Months Ended September 28, 2007**	**Nine Months Ended September 28, 2007**
Power		
Clean air modification projects	$ 95.5	$ 341.4
New generation projects	84.3	324.6
New nuclear programs	73.7	129.0
Infrastructure		
Engineering services	24.0	73.3
Light rail preliminary engineering services project	—	65.2
Mining		
New contract mining services projects	—	359.3
Contract mining services project continuations	64.7	120.9
Industrial/Process		
Construction of a cement plant in Missouri	—	139.3
Facilities management outsourcing contracts	—	85.1
Oil and gas projects	85.4	182.1
Defense		
Chemical demilitarization contract continuations	131.0	418.9
Energy & Environment		
Department of Energy contract extensions and continuations	116.4	422.5
Recompete award of Department of Energy project in New York	119.1	119.1
Consulting services	40.1	88.3

The following table summarizes our changes in backlog for each of the periods presented:

CHANGES IN BACKLOG *(In millions)*	**Three Months Ended** **September 28, 2007**	**Three Months Ended** **September 29, 2006**	**Nine Months Ended** **September 28, 2007**	**Nine Months Ended** **September 29, 2006**
Beginning backlog	$ 6,170.6	$ 4,711.4	$ 5,604.8	$ 4,880.3
New work	1,084.1	1,236.1	3,631.3	2,869.0
Adjustments to backlog	(20.0)	–	(199.3)	(66.6)
Revenue and equity income recognized	(1,079.4)	(836.7)	(2,881.5)	(2,571.9)
Ending backlog	$ 6,155.3	$ 5,110.8	$ 6,155.3	$ 5,110.8

The backlog adjustments during the nine months ended September 28, 2007 primarily resulted from agreements to terminate contract mining projects. The adjustment during the nine months ended September 29, 2006 primarily resulted from a negotiated change order on a contract that reduced the remaining contract term from ten years to five years with two five-year renewal options.

Backlog at September 28, 2007, June 29, 2007 and December 29, 2006 consisted of the following for each business unit:

BACKLOG *(In millions)*	**September 28, 2007**	**June 29, 2007**	**December 29, 2006**
Power	$ 1,406.6	$ 1,404.9	$ 1,262.0
Infrastructure	665.3	765.2	799.6
Mining	935.5	907.5	733.3
Industrial/Process	1,246.5	1,328.1	1,227.6
Defense	976.4	964.7	953.6
Energy & Environment	925.0	800.2	628.7
Total backlog	$ 6,155.3	$ 6,170.6	$ 5,604.8

At September 28, 2007, our backlog was $6.2 billion, an increase of $550.5 million from December 29, 2006. Based on our backlog recognition policies by contract type, reported backlog at September 28, 2007 excluded $5.2 billion of government contracts to be performed beyond two years and $0.6 billion of mining contracts to be performed beyond the next five years. Our backlog at September 28, 2007 consisted of approximately 84 percent cost-type and 16 percent fixed-price contracts compared with 80 percent cost-type and 20 percent fixed-price contracts at the end of 2006.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the three and nine months ended September 28, 2007 and September 29, 2006, and is included to facilitate our analysis and discussion of results of operations.

	Three Months Ended		Nine Months Ended	
(*In millions*)	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Revenue	$ 1,063.9	$ 824.4	$ 2,853.1	$ 2,542.8
Gross profit	60.4	15.5	138.4	115.9
Equity in income of unconsolidated affiliates	25.1	12.3	38.0	29.1
General and administrative expenses	(18.6)	(20.6)	(56.2)	(55.6)
Operating income	66.9	7.2	120.2	89.4
Interest income	2.2	3.0	6.9	8.1
Interest expense	(1.4)	(1.2)	(4.4)	(4.8)
Write-off of deferred financing fees	—	(5.1)	—	(5.1)
URS Corporation merger related costs	(1.6)	—	(8.3)	—
Other income (expense), net	—	(0.2)	(0.3)	(0.1)
Income before income taxes and minority interests	66.1	3.7	114.1	87.5
Income tax expense	(26.8)	(1.6)	(48.3)	(35.3)
Minority interests in (income) loss of consolidated subsidiaries, net of tax	(2.9)	2.2	(5.6)	(0.2)
Net income	$ 36.4	$ 4.3	$ 60.2	$ 52.0

THREE AND NINE MONTHS ENDED SEPTEMBER 28, 2007 COMPARED TO THREE AND NINE MONTHS ENDED SEPTEMBER 29, 2006

Revenue and operating income

Revenue for the three and nine months ended September 28, 2007 increased $239.5 million and $310.3 million, respectively, from the comparable periods in 2006. The net increase was primarily the result of recent contract awards in the Power and Industrial/Process business units converting to revenue. The year to date increase was partially offset by a decrease on a Department of Energy management services contract that achieved certain milestones resulting in the recognition of a portion of the maximum fee pool in the prior year. The completion of certain projects and decreasing volume of work in Iraq also reduced revenue. Revenue from work in the Middle East was $31.2 million and $139.3 million for the three and nine months ended September 28, 2007, respectively, compared to $77.8 million and $252.8 million for the comparable 2006 periods, respectively. We expect revenue from work in Iraq to continue to decline as current task orders are completed and funding for new task orders is limited.

A summary of the significant changes in operating income is included in the following table:

(In millions)	Three Months	Nine Months
Operating income for the periods ended September 29, 2006	**$ 7.2**	**$ 89.4**
Increase in earnings from continuing contracts	21.1	41.5
Increase in earnings from new contracts, primarily Power and Industrial/Process	20.9	40.5
Decrease in earnings from completion of contracts	(6.2)	(8.0)
Improved performance on contract mining projects	2.9	13.1
Gain on sale of interest in coal mine	9.6	9.6
Fee recognized on Department of Energy construction project related to work performed in prior periods	9.0	9.0
Increase due to claim settlement	—	5.4
Decrease in earnings on Department of Energy management services contract	—	(35.9)
Decrease in earnings from task order work in the Middle East	(5.8)	(26.2)
Significant highway project losses in 2006	30.3	39.2
Significant highway project loss in 2007	(4.2)	(29.7)
Increase (decrease) in earnings from MIBRAG mining venture	5.0	(0.3)
Increase in incentive compensation expense based on earnings	(13.4)	(2.2)
Higher business development costs related to various Department of Energy procurements and UK nuclear cleanup	(9.5)	(20.0)
Decrease (increase) in overhead and general and administrative expenses	2.0	(6.2)
Other	(2.0)	1.0
Net increase	59.7	30.8
Operating income for the periods ended September 28, 2007	**$ 66.9**	**$ 120.2**

The diversification of our business may cause margins to vary between periods due to the inherent risks and rewards on fixed-price contracts causing unplanned gains and losses on contracts. Margins may also vary between periods due to changes in mix and timing of contracts executed by us, which contain various risk and profit profiles and are subject to uncertainties inherent in the estimation process. Additionally, the recognition of performance based incentive fees can vary period-to-period depending on various factors, such as the timing of achievement of specific milestones and meeting performance criteria. As discussed in our summary of critical accounting policies, we provide for estimated losses on contracts when such losses are identified and can be reasonably estimated. However, we do not recognize revenue for change orders or claims until it is probable that they will result in additions to the contract value. In many cases, revenue is not recognized until an actual settlement is reached. The combination of these accounting policies can result in volatility in operating income with a charge recognized in one period and change order or claim revenue recognized in a subsequent period.

For a more detailed discussion of our revenue and operating income, see "Business Unit Results," later in this Management's Discussion and Analysis.

Equity in income of unconsolidated affiliates

Equity in income of unconsolidated affiliates increased $12.8 million and $8.9 million for the three and nine months ended September 28, 2007, respectively, from the comparable periods of 2006. The most significant component of the quarter increase was the sale of our 20 percent interest in Westmoreland Resources for a cash payment of $13.5 million. The sale generated a net gain of $9.6 million, including recognition of the remaining unamortized deferred gain of $0.8 million from the March 30, 2007 conclusion of our contract mining services agreement with Westmoreland Resources (see further discussion in Item 1. Financial Statements – Note 4, and later in Business Unit Results – Mining).

Additionally, there was a $5.0 million increase in earnings during the quarter from our share of the MIBRAG mining venture in Germany. This increase is primarily due to higher coal and electricity sales and the favorable Euro/dollar exchange rate. MIBRAG's increase was partially offset by lower earnings from our interest in an affiliate that operates a national laboratory for the Department of Energy. The $0.3 million decline in

MIBRAG's year to date 2007 earnings as compared to 2006 is primarily due to a $2.1 million favorable impact in the first quarter of 2006 from the adoption of a new accounting pronouncement. MIBRAG also experienced lower coal sales to its power plant customers as a result of lower power demand in the first quarter of 2007 as compared to the first quarter of 2006.

General and administrative expenses

General and administrative expenses decreased $2.0 million for the three months ended September 28, 2007, and increased $0.6 million for the nine months ended September 28, 2007 from the comparable periods of 2006. The decrease in the three month period is primarily due to lower outside consulting services. The increase for the nine months is primarily due to higher personnel related costs.

Write-off of deferred financing fees

On July 5, 2006, we restructured our $350 million credit facility, increasing the tranche A facility and eliminating the tranche B facility. The scheduled termination of the agreement and other terms did not change. As a result of the restructuring, $5.1 million of deferred financing fees were written off in the three months ended September 29, 2006.

URS merger related costs

Through September 28, 2007, we have incurred $8.3 million of costs associated with our proposed merger with URS. Merger related expenses were principally comprised of investment banking, legal and accounting fees. If the merger is consummated, we expect to incur a total of approximately $30 million of merger related costs.

Income tax expense

The effective income tax rates for the three and nine months ended September 28, 2007 were 40.6 percent and 42.3 percent, respectively. Excluding the impact of the URS merger related costs, which are not deductible for income tax purposes, the effective income tax rates were 39.6 percent and 39.1 percent for the three and nine months ended September 28, 2007, respectively. The effective income tax rates for the three and nine months ended September 29, 2006 were 42.9 percent and 40.3 percent, respectively. The decrease in the tax rate for the three months ended September 28, 2007 is primarily due to higher operating income when compared to the prior year.

BUSINESS UNIT RESULTS

(In millions)	Three Months Ended September 28, 2007	Three Months Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Revenue				
Power	$ 275.9	$ 170.7	$ 766.9	$ 580.6
Infrastructure	165.6	142.7	423.6	436.9
Mining	63.1	54.3	177.9	120.7
Industrial/Process	200.0	121.2	512.3	371.4
Defense	160.6	145.7	449.6	438.9
Energy & Environment	198.8	187.3	522.4	592.5
Intersegment and other	(0.1)	2.5	0.4	1.8
Total revenue	$ 1,063.9	$ 824.4	$ 2,853.1	$ 2,542.8
Operating income (loss)				
Power	$ 16.0	$ 11.6	$ 45.5	$ 33.9
Infrastructure	6.2	(17.8)	(6.3)	(18.1)
Mining	26.3	9.8	42.1	15.2
Industrial/Process	3.8	(2.9)	10.4	3.8
Defense	13.3	10.7	39.3	35.3
Energy & Environment	20.2	16.4	45.5	77.8
Intersegment and other unallocated operating costs	(0.3)	—	(0.1)	(2.9)
Total segment operating income	85.5	27.8	176.4	145.0
General and administrative expenses, corporate	(18.6)	(20.6)	(56.2)	(55.6)
Total operating income	$ 66.9	$ 7.2	$ 120.2	$ 89.4

Power

Revenue for the three and nine months ended September 28, 2007 increased $105.2 million and $186.3 million, from the comparable periods in 2006. The increases are primarily due to clean air modification projects, new generation projects in Puerto Rico and Wisconsin and a uranium enrichment facility in New Mexico. The higher revenue from these projects was partially offset by decreases of $25.7 million and $87.8 million in revenue from work in the Middle East to $4.8 million and $51.7 million for the three and nine months ended September 28, 2007, respectively. The decline in Middle East revenue is a result of the completion of task orders and a decrease in funding for new task orders.

Operating income for the three and nine months ended September 28, 2007 increased $4.4 million and $11.6 million, respectively, from the comparable periods in 2006. The projects referenced above contributed to higher earnings as did steam generator replacement projects. Offsetting these increases were declines of $3.2 million and $16.1 million, respectively, in earnings from work in the Middle East due to decreased task orders. Earnings from the Middle East were $0.1 million and $2.7 million for the three and nine months ended September 28, 2007, respectively, as compared to $3.3 million and $18.8 million in the comparable periods in 2006.

Infrastructure

Revenue increased $22.9 million for the three months ended September 28, 2007, and declined $13.3 million for the nine months ended September 28, 2007 from the comparable periods of 2006. The increase in revenue for the quarter is due to preliminary design work on a new light rail project in Texas, increased activity on a fixed-price highway project in California and a dam construction project in Illinois. In addition to these projects, an increased share in a joint venture to build a light rail project in California and a negotiated claim settlement on a completed highway job in Nevada contributed to revenue for the year. The year to date revenue increases were more than offset, however, primarily as a result of a client's decision to assert and withhold liquidated damages from payments otherwise due on a fixed-price highway project in California. The wind-down of a light rail project in New Jersey, completion of a bridge project in Florida and decreases in certain continuing projects further reduced revenue. Middle East revenue totaled $11.0 million and $38.3 million for the three and nine months ended September 28, 2007, respectively, compared to $16.5 million and $53.1 million in the comparable periods in 2006.

Infrastructure generated operating income of $6.2 million for the three months ended September 28, 2007 and an operating loss of $6.3 million for the nine months ended September 28, 2007 as compared to losses of $17.8 million and $18.1 million for the comparable periods in 2006. Infrastructure's operating results have been negatively impacted by contract losses on two fixed-price highway projects in California. We recorded a $4.2 million charge during the three months ended September 28, 2007 related to increased estimated costs to complete one of the projects and during the three months ended June 29, 2007, a $25.5 million charge was recorded on the same project for liquidated damages. The operating results for the three and nine months ended September 29, 2006 reflect charges of $30.3 million and $39.2 million, respectively, related to the projects. Excluding the impact of the charges on the fixed-price highway projects, Infrastructure generated operating income of $10.4 million and $23.4 million for the three and nine months ended September 28, 2007 as compared to $12.5 million and $21.1 million for the comparable periods of 2006. The decrease for the three months ended September 28, 2007 is primarily due to the completion and close out of a bridge project in Florida during 2006 and lower earnings from engineering services and from work being performed in the Middle East. These decreases were partially offset by earnings on the preliminary design work for a new light rail project in Texas, the dam construction project in Illinois, and higher earnings from light rail and toll road operations and maintenance contracts. Operating income for the nine months ended September 28, 2007 includes a $5.4 million claim settlement on a highway project in Nevada. Middle East earnings decreased to $1.3 million and $4.0 million for the three and nine months ended September 28, 2007, respectively, from $2.6 million and $13.5 million in the comparable periods of 2006. The decrease in Middle East earnings is primarily due to a decrease in the volume of work being performed based on reduced funding.

The largest fixed-price highway project is a $399.4 million fixed-price highway project in California that is being performed by a construction joint venture in which we have a 50 percent interest. Through September 28, 2007, we have recorded a total of $164.7 million of contract losses on this project, including a $25.5 million charge in the second quarter of 2007. The losses have resulted from various developments including final design and other customer specifications, state regulatory agency requirements, material quantity and cost growth, higher subcontractor and labor costs, and the impact of schedule delays. In addition, the joint venture had been operating pursuant to an understanding that the customer would not withhold payment for liquidated damages. However, in June 2007, the customer began to withhold payment from amounts otherwise due the joint venture. Based on the current schedule, we currently believe the customer will assert and withhold liquidated damages totaling approximately $51.0 million (of which our share is $25.5 million). Claims for schedule extension have been submitted to the client that the joint venture believes will eliminate or significantly reduce liabilities for liquidated damages. As of September 28, 2007, the contract was approximately 90 percent complete, measured on a cost-to-cost basis, and the highway will be available for use in November 2007.

The second project is a $274.9 million fixed-price highway project in California that is being performed by a joint venture in which we have a 65 percent interest. The cost growth on this contract is primarily related to customer design changes and related impacts. During the fourth quarter of 2006, a $10.8 million (before minority interest of $3.8 million) change order recovery was agreed to by the customer. During the nine months ended September 28, 2007, $4.6 million (before minority interest of $1.6 million) of additional change order recoveries have been recognized and negotiations are continuing. The continuing negotiations could result in an additional favorable adjustment estimated to be up to $10 million. As of September 28, 2007, the project was approximately 82 percent complete, measured on a cost-to-cost basis, and is scheduled to be complete in 2008.

To date, only a portion of the cost increases on the two highway projects have been agreed to with the customers and acknowledged with change orders. Our share of pending change orders and claims submitted to the customers total approximately $123.7 million, including recovery of liquidated damages. An additional $13.3 million are in process. In response to our claims, one of the customers has filed certain counterclaims against us. We believe that we will realize significant recoveries once the claim process is completed. Recoveries are recognized only when it is probable they will result in additional revenue and the amount can be reliably estimated, which generally occurs when amounts have been received or awarded. We have not recognized any recoveries related to the pending change orders and claims. Operating results to date are based on current estimates and actual results may differ from our estimates.

Mining

Revenue for the three and nine months ended September 28, 2007 increased $8.8 million and $57.2 million, respectively, compared to 2006. The increases are primarily attributable to new work at a bauxite mine in Jamaica and at a copper mine in Arizona, and an increase in continuing work on a silver mine in Bolivia. These increases were partially offset by the completion of a coal reclamation job in Washington and the conclusion of our contract mining services agreement at a coal mine in Montana.

Operating income for the three and nine months ended September 28, 2007 increased $16.5 million and $26.9 million, respectively, compared to the same periods in 2006. Effective March 30, 2007, we agreed with Westmoreland Resources to conclude our contract mining services agreement at a coal mine in Montana, which provided for compensation to us in lieu of future services and the transfer of certain mining equipment, inventory and reclamation liabilities to Westmoreland Resources. The transaction resulted in a net gain of $6.1 million, of which $1.0 million was deferred due to our continuing 20 percent interest in Westmoreland Resources. On September 28, 2007, we sold our 20 percent interest in Westmoreland Resources, resulting in a net gain of $9.6 million. The net gain consisted of $8.8 million from the sale of our equity interest and $0.8 million from the recognition of the remaining unamortized deferred gain from the March 30, 2007 conclusion of our contract mining services agreement. In addition, equity in earnings of MIBRAG increased $5.0 million for the three months ended September 28, 2007, and decreased $0.3 million for the nine months ended September 28, 2007, respectively, from the comparable periods of 2006. The increase for the three months ended September 28, 2007 is primarily due to higher coal and electricity sales and the favorable Euro/dollar exchange rate. MIBRAG's decrease for the nine months ended September 28, 2007 is due to a $2.1 million favorable impact in the first quarter of 2006 from the adoption of a new accounting pronouncement and to lower coal sales during the first quarter of 2007. Overall operating income was further increased by higher earnings due to improved performance on contract mining projects, including the impact of amending two contracts to cover cost escalation experienced in 2006.

Industrial/Process

Revenue for the three and nine months ended September 28, 2007 increased $78.8 million and $140.9 million, respectively, from the comparable periods of 2006. The increases in revenue were primarily due to a new cement plant contract in Missouri, a chemical plant in Louisiana, an oil and gas project in Colorado and increases on continuing facility maintenance projects. The increases were partially offset by lower revenue on an oil and gas project in Qatar and lower volume within the Life Sciences division.

Operating income for the three and nine months ended September 28, 2007 increased $6.7 million and $6.6 million, respectively, from the comparable periods of 2006. The third quarter increase is primarily related to earnings on the new cement plant in Missouri and lower business development investment in the oil and gas segment during 2007, partially offset by lower earnings on the oil and gas project in Qatar due to increased costs. The year to date increase is driven by earnings on the cement plant, the chemical plant in Louisiana and lower business development investment, partially offset by a decline on the oil and gas project in Qatar and a settlement in 2006 related to a completed gas contract.

Defense

Revenue for the three and nine months ended September 28, 2007 increased $14.9 million and $10.7 million from the comparable periods of 2006. Revenue increased due to higher volume of operations and maintenance activities at domestic and international chemical demilitarization projects, and was partially offset by lower funding for a threat reduction project in the former Soviet Union.

Operating income for the three and nine months ended September 28, 2007 increased $2.6 million and $4.0 million, respectively, from the comparable periods of 2006. The increases are primarily due to higher award fees and performance incentives earned at domestic chemical demilitarization projects.

Energy & Environment

Revenue increased $11.5 million for the three months ended September 28, 2007, and decreased $70.1 million for the nine months ended September 28, 2007 from the comparable periods of 2006. The quarterly increase is mainly due to additional fee recognized on a Department of Energy nuclear waste processing facility construction project in Washington and a new construction project at a Department of Energy site in Idaho. The year to date decrease is primarily due to recognition, in 2006, of performance based incentive fees on a Department of Energy management services contract. During the second quarter of 2006, we achieved certain milestones resulting in the recognition of a portion of the maximum fee pool. Revenue also decreased due to less activity on continuing projects in the Middle East. Middle East revenue decreased $15.1 million for the three months ended September 28, 2007 to $15.5 million compared to $30.6 million in 2006. Revenue from the Middle East decreased $10.5 million from $59.7 million for the nine months ended September 29, 2006 to $49.2 million for the nine months ended September 28, 2007.

Operating income increased $3.8 million for the three months ended September 28, 2007 and decreased $32.3 million for the nine months ended September 28, 2007 from the comparable periods of 2006. The same factors that affected revenue similarly impacted operating income including a $35.9 million decrease in year to date earnings on the Department of Energy management services contract. The three month period and year to date results also include a $9.5 million and $20.0 million increase, respectively, in business development related costs associated with various Department of Energy bids and new work opportunities in the United Kingdom. These development efforts have resulted in being selected by the United Kingdom Nuclear Decommissioning Authority ("NDA") as the preferred bidder on the Low Level Waste Repository near Drigg, and as a qualified bidder in the NDA's Sellafield competition. Middle East earnings were $1.1 million and $3.8 million for the three and nine months ended September 28, 2007 compared to $2.4 million and $4.4 million in 2006.

Energy & Environment has a 50-percent participation in a Department of Energy nuclear waste processing facility construction project in Washington that has experienced significant scope and cost increases. The project is cost reimbursable with performance and cost-based incentive fees. During the three months ended September 28, 2007, the final redesign and testing plans were approved by the Department of Energy resulting in the Department of Energy's authorization to resume all construction activities at the project pursuant to an approved revised project baseline and cost estimate. Based on these actions, we reevaluated the probable fees to be earned on the original contract as well as the percentage of completion on the original contract scope. As a result, in the third quarter of 2007 we recognized additional earnings related to work performed since April 2003 of $10.4 million, of which $1.4 million relates to work performed during the 2007 third quarter. Changes to the overall contract fee and structure are currently being negotiated with the Department of Energy to address the impact of the scope and cost increases on both the original contract and the added scope. We believe that, upon completion of the negotiations, a cumulative adjustment to earnings for work performed since April 2003 will be recognized. The adjustment could occur later in 2007 or in subsequent periods and it is currently estimated that this could range from approximately $15 million to as much as $35 million.

Additionally, we have submitted a Request for Equitable Adjustment ("REA") to the Department of Energy with respect to a large Department of Energy management services contract that expired on December 31, 2006. Although the contract has been extended for a period of eighteen to twenty four months, the REA requests compensation for negative impacts from funding shortfalls and other factors on performance fees earned under the contract. If the REA is successful, we would receive additional fees for work performed under the contract, which could occur in 2007 or later.

FINANCIAL CONDITION AND LIQUIDITY

We have three principal sources of liquidity: (1) cash generated by operations (2) existing cash and cash equivalents and (3) available capacity under our Credit Facility. We had cash and cash equivalents of $296.8 million at September 28, 2007, of which $85.3 million was restricted for use in the normal operations of our consolidated joint venture projects or was restricted under our self-insurance programs. As of September 28, 2007, we had no borrowings and $129.8 million in face amount of letters of credit outstanding under the Credit Facility, leaving a borrowing capacity of $220.2 million under the facility. For more information on our financing activities, see Note 5 "Credit Facility," of the Notes to Condensed Consolidated Financial Statements in Item 1.

Our cash flows are primarily impacted from period to period by fluctuations in working capital and purchases of construction and mining equipment required to perform our contracts. Working capital is affected by numerous factors including:

- ***Business unit mix.*** Our working capital requirements are unique by business unit, and changes in the type, size and stage of completion of contracts performed by our business units can impact our working capital requirements. Also, growth in the business requires working capital investment and the purchase of construction and mining equipment.

- ***Commercial terms.*** The commercial terms of our contracts with customers and subcontractors may vary by business unit, contract type and customer type and utilize a variety of billing and payment terms. These could include customer advances, milestone payment schedules, monthly or bi-monthly billing cycles, and performance based incentives. Additionally, some customers have requirements on billing documentation including documentation from subcontractors, which may increase the level of billing complexity and cause delays in the billing cycle and collection cycle from period to period.

- ***Contract life cycle.*** Our contracts typically involve initial cash for working capital during the start-up phase, reach a cash neutral position and eventually experience a reduction of working capital during the wind-down and completion of the project.

- ***Delays in execution.*** At times, we may experience delays in scheduling and performance of our contracts and encounter unforeseen events or issues that may negatively affect our cash flow.

The following tables summarize our liquidity position and cash flow activities.

Liquidity (*In millions*)	**September 28, 2007**	**December 29, 2006**
Cash and cash equivalents	$ 211.5	$ 232.1
Restricted cash	85.3	65.5
Total	$ 296.8	$ 297.6

Cash flow activities (*In millions*)	**Nine Months Ended**	
	September 28, 2007	**September 29, 2006**
Net cash provided (used) by:		
Operating activities	$ 37.5	$ 3.1
Investing activities	(68.4)	(48.3)
Financing activities	10.3	6.6
Decrease in cash and cash equivalents	$ (20.6)	$ (38.6)

The discussion below highlights significant aspects of our cash flows.

- ***Operating activities:*** For the nine months ended September 28, 2007, operating activities provided $37.5 million of cash. During the period, operating activities included net income of $60.2 million and several significant non-cash expenses including non-cash income taxes of $44.9 million, depreciation and amortization of $31.2 million and stock-based compensation of $11.9 million. Cash flow was impacted by an increase in working capital of $88.2 million principally due to working capital requirements for new and expanding projects; and includes $53.1 million of cash to fund losses on a highway project, partially offset by the collection of a significant performance based incentive fee on a Department of Energy management services contract. Working capital requirements for the US Army Corps of Engineers task orders in the Middle East increased $1.1 million to $21.6 million at September 28, 2007 from $20.5 million at December 29, 2006.

  For the nine months ended September 29, 2006, operating activities provided $3.1 million of cash. During the period, operating activities included net income of $52.0 million and several significant non-cash expenses including non-cash income taxes of $35.0 million, depreciation and amortization of $33.3 million, amortization and write-off of financing fees of $6.4 million and stock-based compensation of $8.2 million. Cash flow was impacted by an increase in working capital requirements of $107.9 million principally due to the recognition of significant performance based incentive fees on a Department of Energy management services contract, payment of which was received in the first quarter of 2007, funding the losses on highway projects, other project working capital requirements and payments made for incentive compensation. At September 29, 2006, working capital requirements related to work in the Middle East declined to $38.2 million from $58.0 million at December 30, 2005.

- ***Investing activities:*** During the nine months ended September 28, 2007, investing activities used $68.4 million of cash, primarily to acquire mining equipment. During the nine months ended September 28, 2007, new contracts to perform mining services for major international natural-resource companies have required $110.9 million of capital expenditures for mining equipment. We have sold and are leasing back under operating leases $45.2 million of mining equipment acquired through September 28, 2007. Also during the nine months ended September 28, 2007, we sold our interest in a coal mine for $13.5 million.

During the nine months ended September 29, 2006, investing activities used $48.3 million of cash, primarily for property and equipment acquisitions for our Infrastructure and Mining business units. In connection with new contract mining projects in Jamaica, we acquired an existing operating company for cash consideration of $6.1 million and the assumption of a $1.7 million note payable. The assets acquired consisted primarily of trade receivables, spare parts inventory and mining equipment.

- ***Financing activities:*** During the nine months ended September 28, 2007, financing activities generated $10.3 million of cash. Options to purchase 353,000 shares of common stock were exercised generating $10.2 million of cash. An additional $0.7 million of cash was received in January 2007 for options exercised at the end of December 2006.

  During the nine months ended September 29, 2006, financing activities generated $6.6 million of cash. During the period, we purchased and cancelled 2.0 million warrants at a cost of $35.6 million; 2.3 million warrants were exercised providing proceeds of $71.2 million and the remaining 192,000 warrants expired. Options to purchase 549,000 shares of common stock were exercised generating $13.4 million in cash and we purchased 761,000 shares of our common stock for $44.0 million. In addition, as described above under Investing activities, during the nine months ended September 29, 2006 we assumed a $1.7 million note payable which was immediately paid in full.

Income taxes

We anticipate that cash payments for income taxes for 2007 and later years will be substantially less than income tax expense recognized in our consolidated financial statements. This difference results from expected tax deductions for tax goodwill amortization and from the use of net operating loss ("NOL") carryovers and foreign tax credit carryforwards. As of September 28, 2007, we have remaining tax goodwill of $42.2 million resulting from the original acquisition of the Government Services Business in 1999 and $430.4 million resulting from the acquisition of Raytheon Company and Raytheon Engineers & Constructors International, Inc. The amortization of this tax goodwill is deductible over remaining periods of 6.5 and 7.8 years, respectively, resulting in annual tax deductions of $62.1 million. The federal NOL carryovers as of September 28, 2007 were approximately $145.0 million, most of which are subject to an annual limitation of $26.5 million and expire in years 2020 through 2026. Unused available NOL carryovers from previous years plus the 2007 annual limitation of $26.5 million would allow us to use up to approximately $76.4 million of the NOL carryovers in 2007. Until the tax goodwill deductions and the NOL carryovers are exhausted, we will not pay cash taxes (other than a minimal impact for alternative minimum tax) on the first $88.6 million of federal taxable income before tax goodwill amortization and application of NOL carryovers each year. We have $138.5 million of tax goodwill deductions and NOL carryovers available for 2007. In addition, as of September 28, 2007, we had $49.7 million of foreign tax credits available to offset future federal taxes payable.

Cash flows for 2007

During the remainder of 2007, we expect cash and cash equivalents to increase. Specific issues, which are relevant to understanding 2007 cash flows, include:

- ***Operating Activities:*** During the nine months ended September 28, 2007, we have used $53.1 million of cash to fund a highway project loss and expect to fund an additional $20 million to $30 million during the remainder of 2007. Other than the highway loss, other working capital requirements have used $35.1 million of cash year to date through September 28, 2007. We do not expect working capital to continue to increase in the last quarter of 2007.

- ***Property and equipment:*** Capital expenditures, net of proceeds from sales of property and equipment and sales of mining equipment leased back, along with normal capital expenditures to upgrade our information systems hardware and software, have amounted to $62.1 million through September 28,

2007. We have sold and are leasing back under operating lease arrangements $45.2 million of mining equipment acquired through September 28, 2007. We expect to acquire approximately $9 million of additional mining equipment during the remainder of 2007, of which approximately $5 million will also be sold and leased back under operating lease arrangements. We do not expect significant additional capital expenditures through the remainder of 2007. We expect depreciation expense to amount to approximately $37 million in 2007.

- ***Income taxes:*** Because of anticipated utilization of tax goodwill amortization of $62.1 million, and the availability of approximately $76.4 million of NOL carryovers and foreign tax credits, we will likely not pay federal taxes, other than a minimal amount for alternative minimum tax. We will pay state and foreign income taxes.

- ***Pension and post-retirement benefit obligations:*** We expect to fund $9.1 million of our pension and post-retirement benefit obligations during 2007 as compared to $14.0 million in 2006. We estimate financial statement expense under these plans to be approximately $4.8 million in 2007 as compared to $6.7 million in 2006. As of September 28, 2007, $6.7 million of contributions have been made to the pension and post-retirement plans.

Financial condition and liquidity

We expect to use cash to, among other things, satisfy contractual obligations, fund working capital requirements and make capital expenditures. We believe that our cash flows from operations, existing cash and cash equivalents and available capacity under our revolving Credit Facility will be sufficient to meet our reasonably foreseeable liquidity needs.

In line with industry practice, we are often required to provide surety bonds to customers under fixed-price contracts. These bonds indemnify the customer should we fail to perform our obligations under the contract. If a bond is required for a particular project and we are unable to obtain an appropriate bond, we cannot pursue that project. We have existing bonding capacity but, as is customary, the issuance of a bond is at the sureties' discretion. Moreover, due to events that affect the insurance and bonding markets generally, bonding may be more difficult to obtain in the future or may only be available at significant additional cost. Although there can be no assurance that bonds will continue to be available on reasonable terms, we believe that we have access to the bonding necessary to achieve our operating goals.

We continually evaluate alternative capital structures and the terms of our credit facilities. We may also, from time to time, pursue opportunities to complement existing operations through business combinations and participation in ventures, which may require additional financing and utilization of our capital resources.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")

We view EBITDA as a performance measure of operating liquidity, and as such we believe that the GAAP financial measure most directly comparable to it is net cash provided (used) by operating activities (see reconciliation of EBITDA to net cash provided (used) by operating activities below). EBITDA is not an alternative to and should not be considered instead of, or as a substitute for, earnings from operations, net income or loss, cash flows from operating activities or other statements of operations or cash flow data prepared in conformity with GAAP, or as a GAAP measure of profitability or liquidity. In addition, our calculation of EBITDA may or may not be comparable to similarly titled measures of other companies.

EBITDA is used by our management as a supplemental financial measure to evaluate the performance of our business that, when viewed with our GAAP results and the accompanying reconciliations, we believe provides a more complete understanding of factors and trends affecting our business than the GAAP results alone. We also regularly communicate our EBITDA to the public through our earnings releases because it is a financial measure commonly used by analysts that cover our industry to evaluate our performance as compared to the performance of other companies that have different financing and capital structures or effective tax rates. In addition, EBITDA is a financial measure used in the financial covenants of our Credit Facility and therefore is a financial measure to evaluate our compliance with our financial covenants. Management compensates for the above-described limitations of using a non-GAAP financial measure by using this non-GAAP financial measure only to supplement our GAAP results to provide a more complete understanding of the factors and trends affecting our business.

Components of EBITDA are presented below:

	Three Months Ended		Nine Months Ended	
(In millions)	**September 28, 2007**	**September 29, 2006**	**September 28, 2007**	**September 29, 2006**
Net income	$ 36.4	$ 4.3	$ 60.2	$ 52.0
Interest expense (a)	1.4	6.3	4.4	9.9
Income tax expense	26.8	1.6	48.3	35.3
Depreciation and amortization	10.1	10.3	31.2	33.3
EBITDA	$ 74.7	$ 22.5	$ 144.1	$ 130.5

(a) Includes write-off of deferred financing fees of $5.1 million for the three and nine months ended September 29, 2006.

Reconciliation of EBITDA to net cash provided (used) by operating activities

We believe that net cash provided (used) by operating activities is the financial measure calculated and presented in accordance with GAAP that is most directly comparable to EBITDA. The following table reconciles EBITDA to net cash provided (used) by operating activities for each of the periods for which EBITDA is presented.

	Three Months Ended		Nine Months Ended	
(In millions)	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
EBITDA	$ 74.7	$ 22.5	$ 144.1	$ 130.5
Interest expense	(1.4)	(6.3)	(4.4)	(9.9)
Income tax expense	(26.8)	(1.6)	(48.3)	(35.3)
Cash paid for reorganization items	(0.2)	(0.8)	(1.4)	(1.8)
Amortization of deferred financing fees	0.2	5.3	0.7	6.4
Non-cash income tax expense	25.7	4.9	44.9	35.0
Minority interests in income (loss) of consolidated subsidiaries, net of tax	2.9	(2.2)	5.6	0.2
Equity in income of unconsolidated affiliates, less dividends received	(7.9)	(7.2)	(8.5)	(15.9)
Gain on sale of interest in coal mine	(9.6)	—	(9.6)	—
Gain on sale of assets, net	(0.6)	(0.9)	(6.0)	(1.7)
Stock-based compensation expense	3.7	2.2	11.9	8.2
Excess tax benefits from exercise of stock options	(0.4)	(0.6)	(3.3)	(4.7)
Changes in operating assets, liabilities and other	(3.5)	(37.2)	(88.2)	(107.9)
Net cash provided (used) by operating activities	$ 56.8	$ (21.9)	$ 37.5	$ 3.1
Net cash provided by operating activities for the nine months ended September 28, 2007	$ 37.5			
Less: Net cash used by operating activities for the six months ended June 29, 2007	(19.3)			
Net cash provided by operating activities for the three months ended September 28, 2007	$ 56.8			
Net cash provided by operating activities for the nine months ended September 29, 2006		$ 3.1		
Less: Net cash provided by operating activities for the six months ended June 30, 2006		25.0		
Net cash used by operating activities for the three months ended September 29, 2006		$ (21.9)		

ACCOUNTING STANDARDS

Recently issued accounting standard

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for our fiscal year 2008 and interim periods within fiscal 2008, with early adoption permitted. We are currently evaluating the impact, if any, that SFAS No. 157 will have on our financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for our fiscal year 2008 and interim periods within fiscal 2008, with early adoption permitted. We are currently evaluating the impact, if any, that SFAS No. 159 will have on our financial statements.

Adoption of accounting standards

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit pension or postretirement plan as an asset or liability in its statement of financial position, recognize changes in that funded status in the year in which the changes occur through comprehensive income and measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year. We adopted certain recognition provisions of SFAS No. 158 as of December 29, 2006, and will be required to adopt the remaining measurement provisions of SFAS No. 158 in 2008. Those provisions require that we measure our plan's assets and its obligations that determine its funded status as of the end of our fiscal year. Our current measurement date is October 31.

In July 2006, the FASB issued FIN 48, which prescribes a more-likely-than-not recognition threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. An uncertain income tax position will not be recognized if it has less than a 50 percent likelihood of being sustained. We adopted the provisions of FIN 48 on December 30, 2006. See Note 7, "Income Taxes and Adoption of FIN 48," of the Notes to Condensed Consolidated Financial Statements in Item 1 of this report for disclosure of the impact of adopting FIN 48.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our Credit Facility. Substantially all cash and cash equivalents at September 28, 2007 were held in highly liquid instruments.

From time to time, we may effect borrowings under bank credit facilities or otherwise for general corporate purposes, including working capital requirements and capital expenditures. Borrowings under our Credit Facility, of which there currently are none, bear interest at the applicable LIBOR or prime rate, plus an additional margin and, therefore, are subject to fluctuations in interest rates.

Foreign currency risk

We conduct our business in various regions of the world. Our operations are, therefore, subject to volatility because of currency fluctuations, inflation changes and changes in political and economic conditions in these countries. We are subject to foreign currency translation and exchange issues, primarily with regard to our mining venture, MIBRAG, in Germany. At September 28, 2007 and December 29, 2006, the cumulative adjustments for translation gains, net of related income tax benefits, were $30.1 million and $25.8 million, respectively. While we endeavor to enter into contracts with foreign customers with repayment terms in US dollars in order to mitigate foreign exchange risk, our revenues and expenses are sometimes denominated in local currencies, and our results of operations may be affected adversely as currency fluctuations affect our pricing and operating costs or those of our competitors. We may engage from time to time in hedging operations, including forward foreign exchange contracts, to reduce the exposure of our cash flows to fluctuations in foreign currency rates. We do not engage in hedging for speculative investment reasons. We can give no assurances that our hedging operations will eliminate or substantially reduce risks associated with fluctuating currencies.

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on financial condition, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the date of the financial statements, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective.

- ***CEO and CFO certificates***

  Attached as Exhibits 31.1 and 31.2 to this report on Form 10-Q are two certifications, one each by the CEO and the CFO. They are required in accordance with Rule 13a-14 of the Exchange Act. This Item 4, *Controls and Procedures,* includes the information concerning the controls evaluation referred to in the certifications and should be read in conjunction with the certifications.

- ***Disclosure controls***

  "Disclosure Controls" are controls and procedures that are designed to reasonably ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure Controls are also designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

- ***Internal control over financial reporting***

Our Disclosure Controls include components of our "Internal Control over Financial Reporting." Internal Control over Financial Reporting is a process designed by, or under the supervision of our principal executive and principal financial officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

- ***Limitations on the effectiveness of controls***

Our management, including the CEO and CFO, does not expect that our Disclosure Controls and/or our Internal Control over Financial Reporting will prevent or detect all error or fraud. A system of controls is able to provide only reasonable, not complete, assurance that the control objectives are being met, no matter how extensive those control systems may be. Also, control systems must be established considering the benefits of a control system relative to its costs. Because of these inherent limitations that exist in all control systems, no evaluation of controls can provide absolute assurance that all errors or fraud, if any, have been detected. The inherent limitations in control systems include various human and system factors that may include errors in judgment or interpretation regarding events or circumstances or inadvertent error. Additionally, controls can be circumvented by the acts of a single person, by collusion on the part of two or more people or by management override of the control. Over time, controls can also become ineffective as conditions, circumstances, policies, technologies, level of compliance and people change. Because of such inherent limitations, in any cost-effective control system over financial information, misstatements may occur due to error or fraud and may not be detected.

- ***Scope of evaluation of Disclosure Controls***

The evaluation of our Disclosure Controls performed by our CEO and CFO included obtaining an understanding of the design and objectives of the controls, the implementation of those controls and the results of the controls on this report on Form 10-Q. We have established a Disclosure Committee whose duty is to perform procedures to evaluate the Disclosure Controls and provide the CEO and CFO with the results of their evaluation as part of the information considered by the CEO and CFO in their evaluation of Disclosure Controls. In the course of the evaluation of Disclosure Controls, we reviewed the controls that are in place to record, process, summarize and report, on a timely basis, matters that require disclosure in our reports filed under the Securities Exchange Act of 1934. We also considered the adequacy of the items disclosed in this report on Form 10-Q.

- ***Conclusions***

Based upon the evaluation of our Disclosure Controls described above, our CEO and CFO have concluded that, subject to the limitations described above, our Disclosure Controls are effective to provide reasonable assurance that material information relating to Washington Group International and its consolidated subsidiaries is made known to management, including the CEO and CFO, so that required disclosures have been included in this report on Form 10-Q.

We have also reviewed our Internal Control Over Financial Reporting during the most recent fiscal quarter, and our CEO and CFO have concluded that there have been no changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously reported, we were sued in the Supreme Court of New York, County of Kings in connection with construction management and inspection services performed by Washington Infrastructure, Inc. for a new school facility for the School Construction Authority of the City of New York by the prime contractor. This suit, *Trataros Construction, Inc. et al., v. The New York City School Construction Authority et al.*, Index No. 20213/01, has been in the discovery stage for years and there have been no material developments in the proceedings in some time. To the extent there are additional material developments in this suit, we will discuss them in future reports under the Exchange Act.

We incorporate by reference the information regarding legal proceedings set forth under the caption "Legal Matters" in Note 8, "Contingencies and Commitments," and under Note 2, "Proposed Merger of Washington Group International with URS Corporation," of the Notes to Condensed Consolidated Financial Statements in Item 1 of this report. Our legal proceedings are also described in Part I, Item 3 "Legal Proceedings" and Note 11, "Contingencies and Commitments," of the Notes to the Consolidated Financial Statements in Item 8 of our 2006 Annual Report.

Our reorganization case is *In re Washington Group International, Inc. and Related Cases*, Docket No. BK-N 01-31627-GWZ, in the US Bankruptcy Court for the District of Nevada.

The personal injury and property damage lawsuits discussed under the caption "Legal Matters" and referred to as "New Orleans Levee Failure Class Action Litigation" in Note 8, "Contingencies and Commitments" of the Notes to Condensed Consolidated Financial Statements in Item 1 of this report refers to *Berthelot, et al. v. Boh Bros. Construction Co., LLC, et al.,* Case No. 05-4182; *Vodanovich, et al. v. Boh Bros. Construction Co., LLC, et al.,* Case No. 05-5237; *Kirsch, et al. v. Boh Bros. Construction Co., LLC, et al.,* Case No. 05-6073; *Ezell v. Boh Bros. Construction Co., LLC, et al.,* Case No. 05-6314; *Brown, et al. v. Boh Bros. Construction Co., LLC, et al.,* Case No. 05-6324; *LeBlanc, et al. v. Boh Bros. Construction Co., LLC, et al.,* Case No. 05-6327; *Finney, et al. v. Boh Bros. Construction Co., LLC, et al.,* Case No. 06-0886; *Christenberry, et al. v. Board of Commissioners of the Orleans Levee District, et al.*, Case No. 06-2278; *Sanchez, et al. v. Boh Bros. Construction Co., LLC, et al.*, Case No. 06-2287; *C. Adams, et al. v. Boh Bros. Construction Co., LLC, et al*., Case No. 06-4065; *Brock, et al. v. Boh Bros. Construction Co., LLC, et al*., Case No. 06-4931; *Fleming, et al. v. The United States of America, et al.*, Case No. 06-5159; *G. Adams, et al. v. Boh Bros. Construction Co., LLC, et al*., Case No. 06-4634; *Gisevius v. Boh Bros. Construction Co., LLC, et al*., Case No. 06-5308; *Holmes, et al. v. The United States of America, et al.*, Case No. 06-5161; *Joseph, et al. v. New Orleans Sewage and Water Board, et al*., Case No. 06-5032; *LeDuff, et al. v. Boh Bros. Construction Co., LLC, et al*., Case No. 06-5260; *O'Dwyer(1) v. United States of America, et al*., Case No. 05-4181, *O'Dwyer(3) v. Dept. of Trans. and Dev., et al*., Case No. 06-4389; *Bradley, et al. v. Boh Bros. Construction Co., LLC, et al*., Case No. 06-225; *O'Dwyer(2) v. Dept. of Trans. and Dev., et al.*, Case No. 06-5786; *Richardson v. Boh Bros. Construction Co., LLC, et al.*, Case No. 06-8708; *Yacob v. Board of Commissioners for Orleans Levee District, et al.*, Case No. 06-5937; *Cochran, et. al. v. Boh Bros. Construction Co., LLC, et al.*, Case No. 06-5785; *Ciuffi v. United States of America, et al.*, Case No. 07-1271; *Carney v. Boh Bros. Construction Co., LLC*, Case No. 07-1349; *The Parfait Family, et al. v. United States of America, et al.*, Case No. 07-3500; *Lundy v. The United States of America, et al.*, Case No. 07-3173; *Dear Mother's Taste of New Orleans, LLC, et al., v. M.A. Hayes Co., et al.*, Case No. 06-5890; *Douville, et al., v. Boh Bros. Construction Co., LLC, et al*., Case No. 07-1113; *Jones, et al., v. State Farm Fire & Casualty, et al., Case No. 06-9151; Entercomm Communications Corp. v. United States of America, et al., Case No. 07-4976; Johnson v. United States of America, et al, Case No. 07-4562; Radio Parts, Inc., v. United States of America, et al., Case No. 07-4555; Huey, et al. v. United States of America, et al., Case No. 07-4550; Abair, et al. v. United States of America, et al., Case No. 07-4392; Bell v. United States of America, et al., Case No. 07-4965; Ferrara, et al. v. United States of America, et al., Case No. 07-4945; Gentilly Land Co., Inc., et al. v. United States of America, et al., Case No. 07-4969; Liberty Bank & Trust Company v. United States of America, et al., Case No. 07-4953; Universal Health Services, Inc. v. United States of America, et al., Case No. 07-5286; Haydel Realty Co., Inc. v. United States of*

America, et al., Case No. 07-5020; Wetco Restaurant Group, LLC v. United States of America, et al., Case No. 07-5012; CII Carbon, LLC v. United States of America, et al., Case No. 07-4995; Marrero Land and Improvement Association, LTD v. United States of America, et al., Case No. 07-5011; Connick, et al. v. United States of America, et al., Case No. 07-5067; Sloan, et al. v. United States of America, et al., Case No. 07-5013; Keppel v. United States of America, et al., Case No. 07-5007; and Albano, et al. v. Board of Commissioners for the Orleans Parish Levee District, et al., Case No. 07-4837, all currently pending in the US District Court for the Eastern District of Louisiana and consolidated under the *Berthelot* case.

The lawsuit relating to our USAID-financed projects in Egypt discussed under the caption "Legal Matters" and referred to as "Litigation and Investigation related to USAID Egyptian Projects" in Note 8, "Contingencies and Commitments" of the Notes to Condensed Consolidated Financial Statements in Item 1 of this report refers to *United States of America v. Washington Group International, Inc., et al.*, Case No. CIV-04545S-EJL, in the US District Court for the District of Idaho.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report, except as follows:

Failure to complete the merger with URS could materially and adversely affect our results of operations and our stock price.

On May 27, 2007, we entered into a definitive merger agreement with URS. Consummation of the merger is subject to customary closing conditions, regulatory approvals, including antitrust approvals, and approval by the stockholders of URS and Washington Group International, respectively. We cannot assure you that these conditions will be met or waived, that the necessary approvals will be obtained, or that we will be able to successfully consummate the merger as currently contemplated under the merger agreement or at all. If the merger is not consummated:

- We may not realize any or all of the potential benefits of the merger, including any synergies that could result from combining the financial and proprietary resources of Washington Group International and URS;
- We will remain liable for significant transaction costs, including legal, accounting, financial advisory and other costs relating to the merger;
- Under some circumstances, we may have to pay a termination fee to URS in the amount of $70 million;
- The attention of our management and our employees may be diverted from day-to-day operations;
- Our customers may seek to modify or terminate existing agreements, or prospective customers may delay entering into new agreements or purchasing our products as a result of the announcement of the merger; and
- Our ability to attract new employees and retain our existing employees may be harmed by uncertainties associated with the merger.

The occurrence of any of these events individually or in combination could have a material adverse affect on our results of operations and our stock price.

Since the merger agreement contemplates a fixed exchange ratio, changes in the market price of URS common stock could adversely affect the value of URS common stock to be received by our stockholders in the merger.

Under the merger agreement, each outstanding share of our common stock will be converted into the right to receive 0.772 of a share of URS common stock and cash consideration of $43.80. Because the merger agreement contemplates a fixed exchange ratio, changes in the stock price of URS common stock in the period leading up to the time the merger is consummated could adversely affect the value of the URS common stock to be received by our stockholders upon consummation of the merger.

In connection with the merger, we have filed a joint proxy statement/prospectus with the Securities and Exchange Commission announcing a special meeting of stockholders that we will hold during the fourth quarter of 2007 to enable our stockholders to vote to adopt the merger agreement. The joint proxy statement/prospectus will be sent to all our stockholders and will contain important information about Washington Group International, URS, the proposed merger, risks relating to the proposed merger and the combined company, and related matters. We strongly encourage our stockholders to read this joint proxy statement/prospectus.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Repurchases of Equity Securities

We did not repurchase any shares of our common stock during the three months ended September 28, 2007. We are authorized to repurchase up to approximately $100.0 million of outstanding shares of common stock in open market or negotiated transactions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

The Exhibits to this quarterly report on Form 10-Q are listed in the Exhibit Index contained elsewhere in this quarterly report

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.

WASHINGTON GROUP INTERNATIONAL, INC.

October 31, 2007

/s/ George H. Juetten

George H. Juetten
Executive Vice President and Chief Financial Officer,
in his respective capacities as such

WASHINGTON GROUP INTERNATIONAL, INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1	Waiver and Agreement dated as of July 13, 2007, among the Company, Credit Suisse (individually and as administrative agent), and certain lenders under that certain Second Amended and Restated Credit Agreement dated as of June 14, 2005 (as amended) (filed as Exhibit 10.1 to Washington Group International's Form 8-K Current Report filed on July 16, 2007, and incorporated herein by reference).
31.1*	Certification of the Principal Executive Officer of Washington Group International, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer of Washington Group International, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith
† Furnished herewith

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATIONS
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen G. Hanks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Washington Group International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

WASHINGTON GROUP INTERNATIONAL, INC.

October 31, 2007

/s/ Stephen G. Hanks
Stephen G. Hanks
President and Chief Executive Officer

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER'S CERTIFICATIONS
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, George H. Juetten certify that:

1. I have reviewed this quarterly report on Form 10-Q of Washington Group International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

WASHINGTON GROUP INTERNATIONAL, INC.

October 31, 2007

/s/ George H. Juetten
George H. Juetten
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Washington Group International, Inc. (the “Company”) on Form 10-Q for the quarter ended September 28, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the Report.

WASHINGTON GROUP INTERNATIONAL, INC.

October 31, 2007

/s/ Stephen G. Hanks
Stephen G. Hanks
President and Chief Executive Officer

WASHINGTON GROUP INTERNATIONAL, INC.

October 31, 2007

/s/ George H. Juetten
George H. Juetten
Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, and is not being filed as part of the Report or as a separate disclosure document.