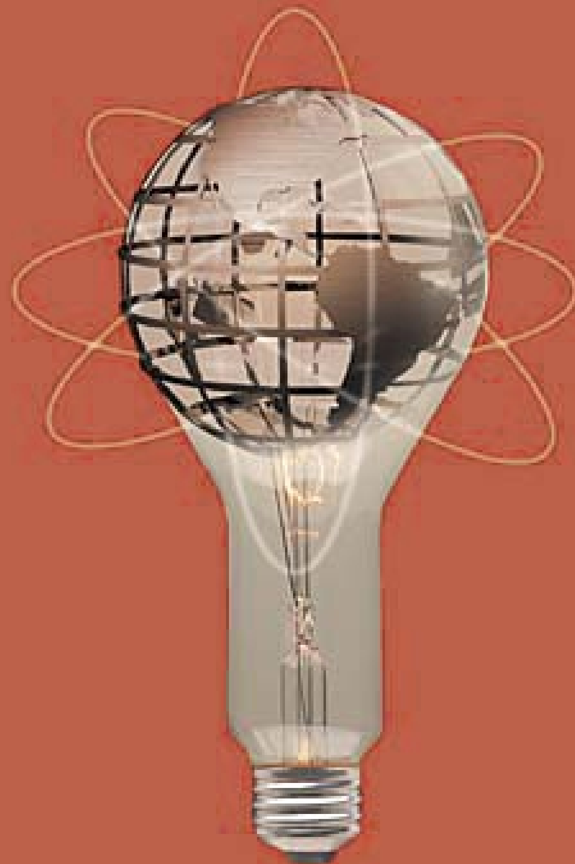
EXPERIENCE POWER



The Shaw Group Inc.

2000 ANNUAL REPORT

corporate PROFILE

The Shaw Group Inc. (Shaw or the Company) is the world's only vertically-integrated provider of complete piping systems and comprehensive engineering, procurement and construction services to the power generation industry. Shaw is the largest supplier of fabricated piping systems in the United States and a leading supplier worldwide, having installed piping systems in more than 375 power plants with an aggregate generation capacity in excess of 200,000 megawatts. The Company also engages in pipe fabrication and comprehensive engineering, procurement and construction services for the process industries, including petrochemical, chemical and refining, and the environmental & infrastructure sectors.

The Shaw Group Inc.

To capitalize on the growing demand for new power generation capacity, the Company partnered with Entergy Corporation's non-utility wholesale operations in September 2000 in a jointly-owned and managed company, EntergyShaw, L.L.C., that will manage the construction of cost-effective, combined-cycle power plants for Entergy and other customers in the unregulated power market.

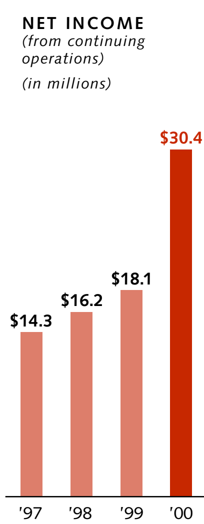
Founded in 1987, Shaw has expanded rapidly through internal growth and the completion and integration of a series of strategic acquisitions — most recently the majority of the operating assets of Stone & Webster, a premier name in engineering, procurement and construction services to the global power generation industry. Shaw currently employs approximately 13,000 individuals and maintains offices and operations in North America, South America, Europe, the Middle East and the Asia-Pacific regions.

financial & operating

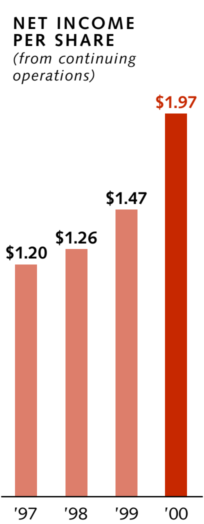
HIGHLIGHTS

(In thousands, except per share data)	Years Ended August 31, 2000	1999	1998
Total Revenues	**$ 762,655**	$494,014	$501,638
Gross Profit	**127,076**	93,828	79,581
Net Income from Continuing Operations	**30,383**	18,121	16,232
Net Income per Diluted Share from Continuing Operations	**1.97**	1.47	1.26
Working Capital	**108,657**	113,975	130,455
Total Assets	**1,335,083**	407,062	389,844
Short-Term Debt	**30,251**	51,618	30,212
Long-Term Debt	**254,965**	87,841	91,715
Shareholders' Equity	**377,275**	174,239	170,695
Number of Shares Outstanding at Year End	**17,701**	11,736	13,280

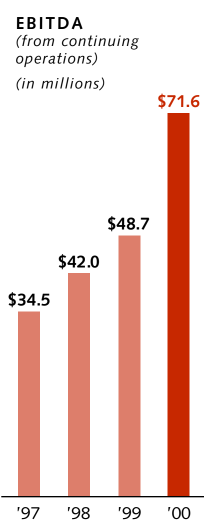
NET INCOME
(from continuing operations)
(in millions)



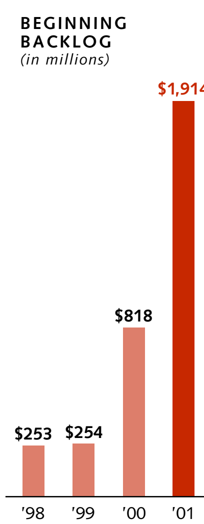
NET INCOME PER SHARE
(from continuing operations)



EBITDA
(from continuing operations)
(in millions)



BEGINNING BACKLOG
(in millions)



letter to our SHARE

We are proud to report that The Shaw Group has had an exceptional year. We surpassed the goals and objectives we set out in last year's report. We excelled in our industry and out-performed the "Street's" expectations. This past year of dynamic change, significant growth and rewarding performance is what we have been working towards since 1987. We more than doubled the size of our Company, increased our backlog by over $1.0 billion, and our stock has risen 173% from $20.37 per share at September 1, 1999 to $55.69 per share on August 31, 2000.

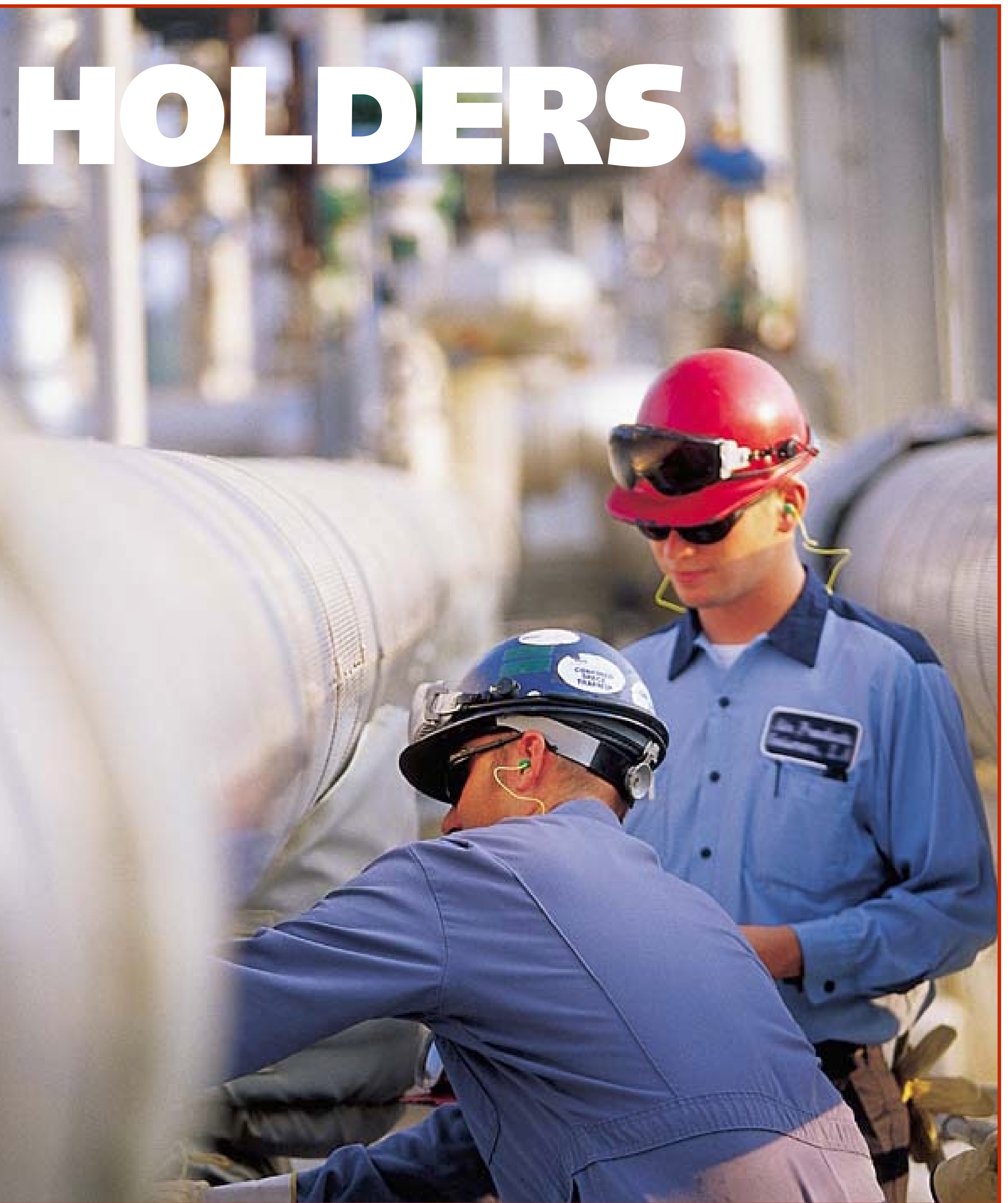
Securing A Profitable Future. Two significant developments occurred this year that point to a profitable future for the Company, not just in the near-term, but for many years to come. First, EntergyShaw, L.L.C., a jointly-owned and operated company, was formed to provide management, engineering, procurement, construction and commissioning services for the building of power generation plants for Entergy's wholesale operations in North America and Europe. Second, The Shaw Group acquired most of the operating assets of Stone & Webster, a leading provider of engineering, procurement, construction and consulting services to the power, process and environmental & infrastructure markets. This strategic acquisition strengthens Shaw's presence in the power industry, complements and enhances our traditional strengths in pipe fabrication and project execution, and enables us to provide a more complete, cost-effective package of products and services for the Company's power and process customers. Furthermore, our combined capabilities will increase the scope of work we can perform for EntergyShaw.

"EXPERIENCE and capabilities distinguish The Shaw Group from its competitors. Operating from this position of strength, Shaw will address the global industrial development needs for POWER."

Years In The Making. The above achievements came about as a result of the Company's preparation and ability to act on these opportunities. Strategic decisions relating to our core competencies, capabilities and capacities were critical to reach this point. It has also taken a shrewd, highly informed, entrepreneurial executive management team to recognize market trends and act on opportunities to further strengthen our positions. The establishment of alliances with key customers provided Shaw with a steady source of projects and reliable and predictable revenue. The Company's strategic acquisition and rapid integration of companies with complementary technologies and capabilities have proven historically successful at providing Shaw with significant growth opportunities as well as enhancing the Company's ability to be a fully-integrated service provider.

The actions of the past year have grown the Company in size and ability, and have enhanced our comprehensive product and service offering to customers, while expanding our industrial marketplaces. Furthermore, by broadening our focus, these actions also minimize Shaw's exposure to the negative impact of specific market volatility as experienced in recent years in the oil & gas industry and, as a consequence, in the chemical/petrochemical processing industry. Through the events of this past year, Shaw has emerged as a global player in the critical industries that supply nations and private enterprise with power, fuel and the building blocks for manufactured goods.

Financial Performance. For the year ended August 31, 2000, the Company realized a 68% increase in earnings from continuing operations to $30.4 million, or $1.97 per diluted share, as compared to $18.1 million, or $1.47 per diluted share, for the previous year. Sales were $762.7 million for fiscal year 2000, compared to $494.0 million for fiscal year 1999. By the end of fiscal year 2000, our backlog (including Stone & Webster) reached more than $1.9 billion, a 134% increase over the previous year-end backlog of $818 million. Power generation projects represent approximately 67% of the total backlog, process industry and environmental & infrastructure industry projects account for 18% and 13% respectively, with 2% accounted for by other industries. The split between domestic and international work is 80%–20%. At present, we estimate that 49%, or approximately $938 million, of our backlog as of August 31, 2000, will be completed in fiscal year 2001.


HOLDERS

Not included in backlog are projects from EntergyShaw, nor the recently announced letter of intent to provide engineering, procurement and construction services for a 600,000 metric ton-per-year ethylene plant in Nanjing, People's Republic of China (PRC).

In the fourth quarter of fiscal 2000, the Company expanded its credit facility from $100 million to $400 million. Also in the fourth quarter, the Company purchased the operating assets of Stone & Webster for $37.6 million in cash, 2,231,773 shares of our common stock and the assumption of certain liabilities. Approximately $35 million in annual operational cost savings through reduction in general and administrative redundancies and other expenses have been identified during the integration of Stone & Webster into Shaw.

In October 2000, Shaw sold 4 million shares of common stock at $63.50 per share, of which 1,818,669 new shares were issued by Shaw, and the remaining shares were offered by the Stone & Webster estate. The underwriters also exercised their right to the over-allotment option of 600,000 shares. Shaw's net proceeds after underwriting discounts and commissions, and other expenses of the offering, were approximately $145 million. The Company used the proceeds to repay indebtedness under its revolving credit facility, provide working capital and provide Shaw with the financial position to take advantage of future strategic acquisition opportunities as they arise.

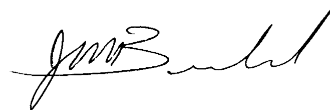
Executive Management for Global Operations. After the acquisition of Stone & Webster, a certain amount of streamlining was necessary in order to integrate and maintain efficient and profitable operations for Shaw as well as Stone & Webster. Through the vision, direction and depth of our experienced management team, we were able to identify and integrate Stone & Webster's resources into The Shaw Group while continuing Shaw's high level of operational activity. As part of the integration of the Company's newly formed entity, Stone & Webster, Inc., A Shaw Group Company (S&W), the people most critical to the continued operations of S&W have been identified, and a new organizational structure has been developed. We intend to continue to build our management team with the first class talent and experience we believe is critical to our ongoing growth.

Operating from a Position of Strength. It is apparent that our participation in the build-up of power generation capacity will continue to fuel our growth and feed our revenue streams for the next several years. The enhancement of our power-focused competencies has placed us in an ideal position. Undersupply has caused serious shortages and there is immense opportunity in the realm of wholesale unregulated power generation. The formation of EntergyShaw positions us to reap the benefits of the immediate need for increased capacity.

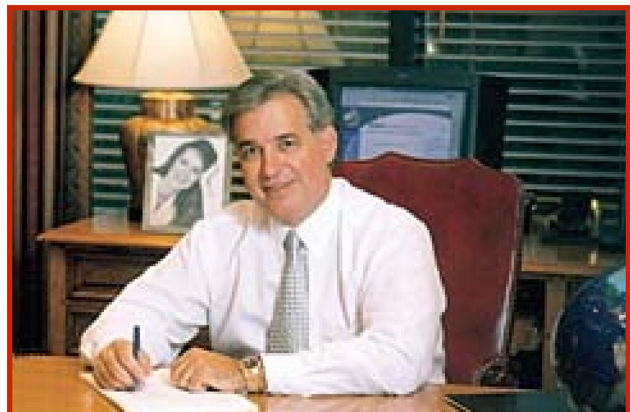
Our acquisition of Stone and Webster, a well-regarded company with a long history of serving the power generation industry, reinforces our position in the global marketplace. Stone & Webster also brings the Company increased strength in the process industries with proprietary and proven technologies. Additionally, we are in position to respond to increasing activity in the oil & gas sector of the energy industry that is beginning to drive orders for offshore facilities, pipelines, refinery projects and upgrades.

Our strategy for growth is sound. It is flexible. It allows the Company to respond nimbly to market conditions. It grants us the freedom to make timely acquisitions and form mutually beneficial alliances. It positions us to take advantage of opportunities as they arise. And it has allowed us to extend our horizons without diluting the core competencies that make up the foundation for The Shaw Group.

Through our adherence to this strategy, we have evolved our Company into a global enterprise positioned to benefit from the build-up of activity in the power generation industry—strengthened by our proprietary technologies and expertise in the other industries we serve. We look forward to a future of exceptional performance and reward for our global family of employees, customers, partners and shareholders.

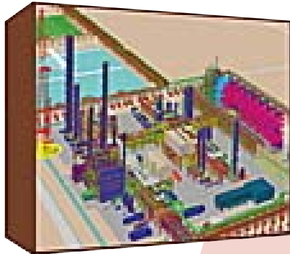


J. M. Bernhard, Jr.
Chairman of the Board, President and Chief Executive Officer

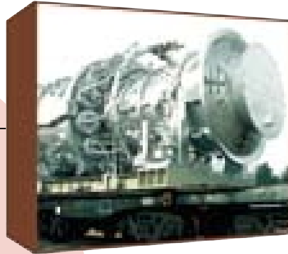


strengthening our GLOBAL

VERTICALLY-INTEGRATED CAPABILITIES



Design & Engineering



Procurement

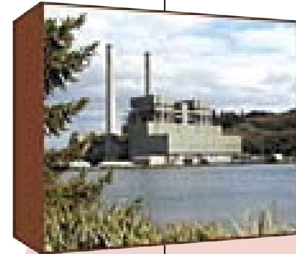
Pipe Fabrication

Induction Bending

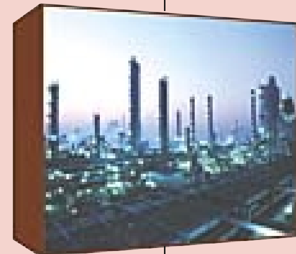
Manufacture of Pipe Fittings

Construction & Maintenance

BROAD MARKET OPPORTUNITIES



Power Generation



Process

Environmental & Infrastructure

PRESENCE

EXTENSIVE PORTFOLIO OF PROJECTS

AUSTRALIA
BELGIUM
BRAZIL
CANADA
CHINA
EGYPT
FINLAND
GHANA
INDIA
INDONESIA
MALAYSIA
MEXICO
NETHERLANDS
NEW ZEALAND
NORWAY
OMAN
PERU
PHILIPPINES
SAUDI ARABIA
SCOTLAND
SINGAPORE
TAIWAN
TANZANIA
TURKEY
UNITED KINGDOM
UNITED STATES
VENEZUELA

s e c u r i n g a
POWERFUL

Securing a Powerful Future

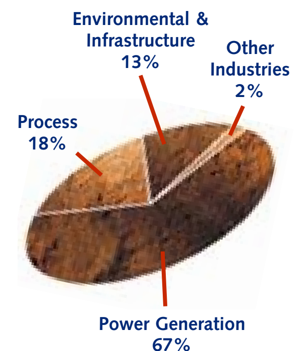
As expected, the undersupply of power generation capacity, currently most apparent in North America, continues to drive the build-up of the power industry. The business impact of this activity on Shaw is quite dramatic when viewed in the context of market exposure over a relatively brief time period. Just two years ago, power generation projects accounted for only 30% of the Company's backlog (chemical and petrochemical processing projects accounted for 50%). Today, power projects dominate the Company's impressive backlog with a 67% share.

The Energy Information Administration (EIA) projects 1,000 new plants with a total of 300 gigawatts of capacity will be needed by 2020 to meet growing demand, offset the retirements of nuclear and fossil fuel plants, and combat the effects of under-investment in power generating capacity. Approximately 90% of this new capacity is projected to be combined-cycle or combustion turbine technology. Power generating capacity is expected to

FUTURE

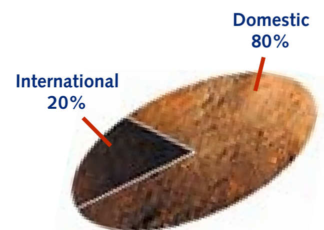
grow by approximately 136,300 megawatts in North America over the next five years, and approximately 200,000 megawatts by 2013. The current situation in the rest of the industrialized world is similar. This is what is driving the surge in new power plant construction—and filling our current backlog to the tune of $1.3 billion of power generation industry work.

BACKLOG BY INDUSTRY
(as of August 31, 2000)



Shaw is the leading provider of piping systems that comprise the largest non-equipment component of a power plant. On average, 30% to 50% of a project's total work hours are spent on project critical piping systems. With global power plant piping experience that exceeds 200,000 megawatts, we believe we have captured more than 35% of the worldwide market share. Our recognized experience and capability is of critical importance to the build-up of power generating capacity. It is also the primary reason we are so well positioned to address the needs of the worldwide marketplace, whether in coal, gas or nuclear power generation.

BACKLOG BY GEOGRAPHY
(as of August 31, 2000)



Our Best Visibility to Date

Our contract with General Electric (GE) to supply the piping required for the operation of GE-built gas turbines accounted for 18%, or $350 million of our total backlog at August 31, 2000, of which 67% is power-related. Additionally, EntergyShaw is expected to add substantially to our power backlog of work over the next several years. The remaining 33% of our backlog is distributed between various industry sectors—chiefly the process industry, which includes chemical, petrochemical and refining, and the environmental & infrastructure sector, which is dominated by government contracts and municipal transportation and water/wastewater projects.

EntergyShaw, L.L.C.

The formation of EntergyShaw provides an innovative and much needed solution for the buildup of power generation capacity. EntergyShaw will serve Entergy Wholesale Operations (EWO), the power development, marketing and trading business unit of Entergy, as well as other parties in the domestic and international markets. Structured to provide management, engineering, procurement, construction and commissioning services to major power generation projects, the new company is positioned to take advantage of the global need for a rapid build-up of power capacity.

Focusing first on the execution of EWO's gas turbine rollout program in North America and Europe, EntergyShaw is developing a "reference" plant design to address the needs of the market. This design will not only streamline and accelerate the process of building power plants, but it will decrease construction, commissioning and operating risks and provide significant reductions in power plant capital costs.

EntergyShaw expects to manage the installation of approximately 70 turbines for the unregulated wholesale operations of the soon-to-be largest power producer in the U.S. The proposed merger of Entergy and FPL Group will result in combined generating capacity in excess of 48,000 megawatts. With Shaw's strength in piping systems and project execution, coupled with Stone & Webster's expertise in engineering, it is highly likely that Shaw will provide the engineering, fabrication and construction services for these plants. As such, the activities of EntergyShaw are expected to have a profoundly positive impact on our backlog in the coming years. In total, the new company is expected to manage the construction of multiple power plant projects with total capital value exceeding $6 billion over the next several years.

By combining the skills, capabilities and expertise of Shaw and Stone & Webster with EWO's gas turbine roll-out program and aggressive development strategy, the new company has, in effect, created a new business model for the power industry—one that is based on the principles of a compatible business culture, fully aligned interests, common goals, shared risk, project participation and ultimately, profit participation.

strategic PARTNERSHIPS &

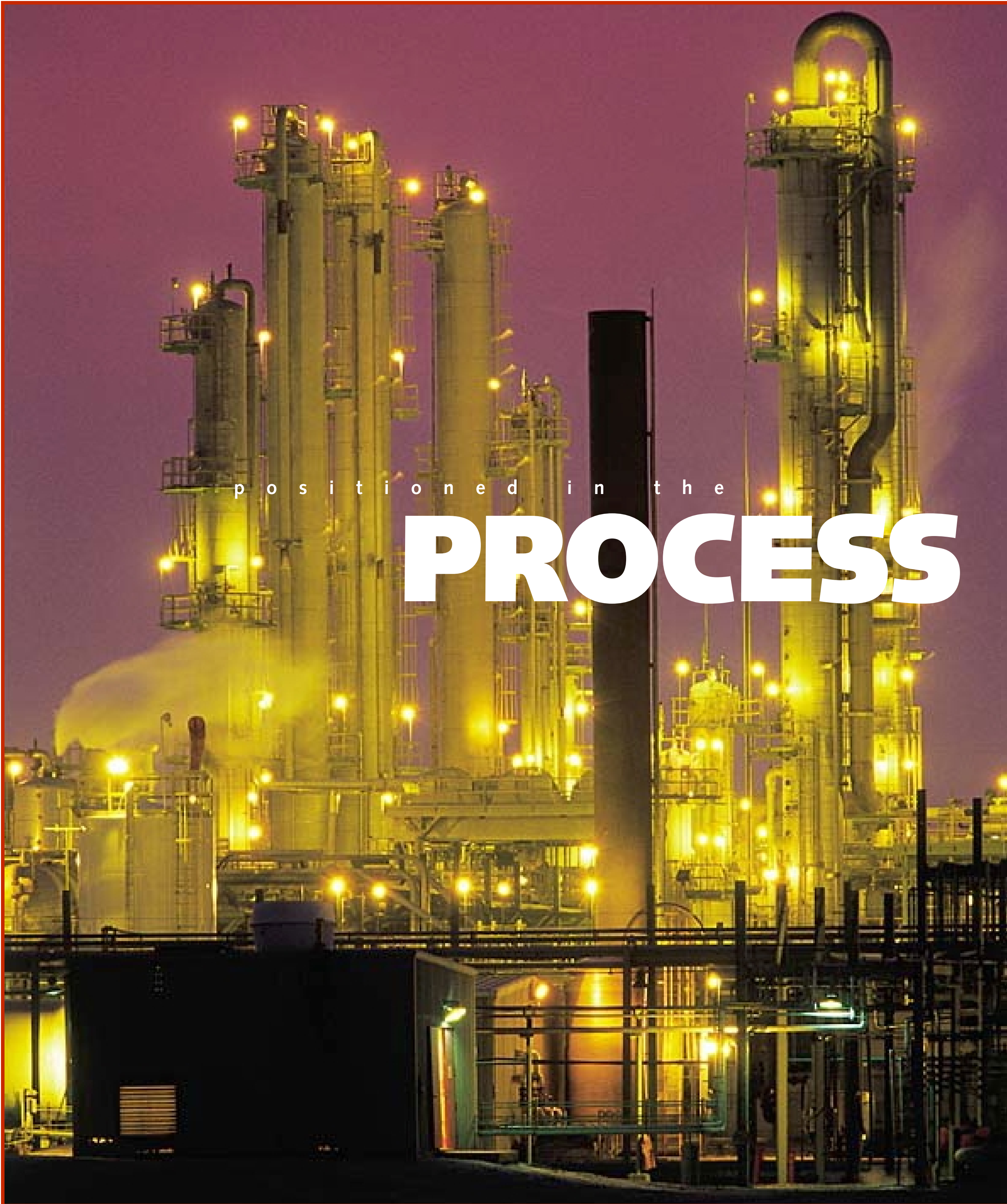
The Timely Acquisition of Stone & Webster

Although our acquisition of Stone & Webster was completed quickly, the strategy that led to it has been in place, guiding the growth of the Company, for many years. Acquiring Stone & Webster was, in effect, a logical "next step" for Shaw, enabling the Company to deliver a value-added package of comprehensive products and services to its customers.

Stone & Webster made its name in the power industry. The company has been responsible for the development, consulting, engineering and construction of much of the country's major nuclear, fossil-fueled, geothermal and hydroelectric power generation projects. It has an extensive portfolio of power projects spanning six continents and over 50 countries, and over 110 years of providing premier engineering services to the power sector. The company's particular expertise in the nuclear power sector sets it apart from other engineering, procurement and construction (EPC) participants in the global power market. Stone & Webster has extreme depth of experience in the nuclear arena having provided complete engineering/construction for 17 nuclear facilities and engineering support services for over 90% of the operating domestic nuclear plants. With over 1,000 experienced personnel, Stone & Webster's nuclear expertise is unparalleled. Coupled with Shaw's certified nuclear piping fabrication capability, the Company's nuclear package is comprehensive.

In addition, S&W Consulting applies world-class technical and economic know-how to the opportunities brought about by the fundamental changes occurring in the power and broader utility marketplace. Providing advisory services to owners, investors, developers, operators and governments worldwide, the Company's S&W Consulting group provides generation and distribution asset valuations, competitive market strategy, plant technical descriptions, appraisals, energy demand modeling, and transmission and distribution analysis through the group's proprietary power industry software products. In addition, over the last two years, S&W Consulting has provided over 400 financial and technical project reviews to lenders and utilities worldwide. Finally, working with the World Bank and other multilateral institutions, S&W Consultants plays a key role in facilitating infrastructure development in Africa, Asia, and South and Central America.

ACQUISITIONS


positioned in the
PROCESS

A Busy Year in the Power Sector

On the domestic front, we completed work on the Midlothian project in North Texas and we are currently in year two of our GE contract, which extends through 2004. The amount of work in the power piping industry alone required that we increase our fabrication capacity during the year with the addition of the Shaw Shreveport fabrication facility which was brought online in May 2000. To supplement growth in South America, we plan to have a facility in Barcelona, Venezuela operational in January 2001. In addition, we increased our fabrication capacity at two existing facilities located in Louisiana.

On the international front, we completed work on a number of power generation projects in the Asia-Pacific region, most notably the Yang Chen coal-fired power plant project in the PRC and the Ling Ao Nuclear Power Station for the China National Nuclear Corporation (CNNC). The Wai Gao Qiao and Heze power plant projects are scheduled for completion in fiscal year 2001. The Asia-Pacific region has continued to be a robust market for power sector development, and we believe that this level of activity will be sustained in the foreseeable future, as the region's projected growth in power capacity is second only to that of North America.

Shaw UK completed work on the Coryton, Shoreham and Great Yarmouth power plants in the United Kingdom. With the deregulation of British power plants below 40 megawatts capacity, we believe there will be ample demand for fabrication, engineering, procurement and construction services in the 10 megawatts project range, as well as our traditional larger power plant projects. The growing activity in this market, along with the Company's advantageous fabrication alliance with Alstom, is viewed as a springboard to the European market that is just beginning to realize the severity of capacity shortages. ■

SECTOR

Positioned in the Process Sector

As a global leader in proprietary process technologies, Stone & Webster brings added capabilities in providing cost-effective solutions for petrochemical, refining, polyolefin and gas processing applications. In the petrochemical sector, Stone & Webster has supplied the process technology for 35% of the world's ethylene capacity constructed since 1995 and has recently started ethylene units in India, Canada, Brazil, Malaysia, Taiwan, Sweden and the Netherlands. In the refining sector, Shaw now has particular strength in the proprietary technologies that convert low-value, heavy crude into value-added products using fluid catalytic cracking and deep catalytic cracking processes. In fact, S&W technology has been used in over 70 refineries worldwide. Stone & Webster has a full-service polymer program offering established third-party licensed polyolefin technologies, including those for polyethylene, polypropylene and polystyrene. In gas processing, Stone & Webster has provided EPC services and proprietary process technology for propane dehydrogenation facilities, gas treatment facilities and liquefied natural gas plants. Stone & Webster has also formed productive technology partnerships with many of the world's leading oil & gas players including ExxonMobil and BP.

Announced late in the fourth quarter of fiscal 2000, the Company received a letter of intent for the engineering, procurement and construction of a 600,000 metric ton-per-year ethylene plant in Nanjing, PRC for China Petroleum & Chemical Corporation (SINOPEC) and its subsidiary, SINOPEC Group Yangzi Petroleum Corporation (YPC). Negotiated as a lump-sum, turnkey project, this plant is the first unit awarded for the $2.7 billion Integrated Petrochemical site to be developed by BASF Aktiengesellschaft (BASF) and YPC. Scheduled to go on-stream in 2004/2005, this project is viewed by the Company as an opportunity to showcase Shaw's project management capabilities and Stone & Webster's engineering technology and expertise in the Asian region. This is the first of several projects planned for the region.

A Year of Modest Project Activity

We completed work on the Orion refinery project in Norco, Louisiana. As one of the nation's largest grassroots complexes built recently, the Orion project was notable for its manpower demands (over 2,500 at its peak) and its exceptional safety record (over 4.5 million work hours without a lost-time incident). Elsewhere in the process sector, the Company has secured long-term, multi-sited maintenance contracts with Albemarle, Air Products, Enron and ICI Klea that total in excess of $100 million.

As a percentage, the Company's activity in the process sector decreased over the past year, partially related to the increase in the power sector. Additionally, we attribute the slow-down in the process sector to the continued sluggishness of South American economies and the slow recovery of the global oil & gas industry. Although commodity prices have rebounded to astonishing highs, increased activity and spending in the downstream process industry is lagging the sector recovery by 18 to 24 months. ■

Gaining New Competencies

The S&W acquisition introduced a new industry to the Shaw portfolio. Initially established in the 1970s to provide complementary services to power and process industries, the Environmental & Infrastructure (E&I) business unit provides services for environmental remediation, transportation and water/wastewater facilities. Environmental projects are usually undertaken on behalf of government entities (the Department of Defense and the Department of Energy) and typically include remediation projects such as the clean up of Superfund sites and former nuclear weapons production facilities. Infrastructure projects, generally driven by government appropriation programs, include transportation projects, such as rail transit systems, tunnel, bridge and highway projects; and water projects such as water supply systems, leachate migration systems and membrane water treatment plants. Currently involved in over 300 projects valued at more than $200 million, the E&I division provides the Company with a steady stream of work. ■

Continuing On Our Path To Prosperity

Throughout our evolution, Shaw has demonstrated an ability to capitalize on sector and market opportunities. We are certain that our record growth and profitability is the result of our adherence to this strategy. Our acquisitions over the years have been strategically timed to position our Company to address uptrends and provide Shaw with revenue streams that resist market volatility.

Moving forward, we will continue to work our proven strategy. In the coming years, we will capitalize on the complementary strengths—the people, processes, competencies and the global presence—we have gained with the acquisition of Stone & Webster. We will continue to utilize discipline in project acquisition and management, and seek the contractual relationships that

continuing on

OUR PATH TO

have kept our operations profitable and efficient. We will leverage our proprietary technologies and intellectual property advantages to their greatest extent, to continuously raise our level of service and provision of value to our customers. Since the influence of our alliances and strategic partnerships on the success of Shaw is incontestable, we will enter into alliance agreements whenever feasible to provide our Company with long-term commitments and predictable revenues. And finally, we intend to pursue accretive acquisitions that we believe will add significant value to our portfolio of products and services—and, more importantly, provide robust returns on our shareholders' investments.

This strategy has proven highly effective in the decade leading up to this pivotal year. We believe it will be equally successful as The Shaw Group, our subsidiaries and our jointly owned enterprises step into the next century. ■

PROSPERITY

FINANCIAL directory

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents, for the periods and as of the dates indicated, selected statement of income data and balance sheet data of the Company on a consolidated basis. The selected historical consolidated financial data for each of the three fiscal years in the period ended August 31, 2000 presented below have been derived from the Company's audited consolidated financial statements. Such data should be read in conjunction with the Consolidated Financial Statements of the Company and related notes thereto included elsewhere in this Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The information has been restated to exclude discontinued operations.

	Year Ended August 31,				
	2000	1999	1998	1997	1996
(In thousands, except per share amounts)	**(2)**		(3)	(4)(7)	(5)(6)(7)
Consolidated Statements of Income					
Sales	**$ 762,655**	$494,014	$501,638	$335,734	$248,969
Income from continuing operations	**$ 30,383**	$ 18,121	$ 16,232	$ 14,300	$ 6,915
Basic income per common share from continuing operations (1)	**$ 2.05**	$ 1.52	$ 1.29	$ 1.23	$ 0.71
Diluted income per common share from continuing operations (1)	**$ 1.97**	$ 1.47	$ 1.26	$ 1.20	$ 0.69
Consolidated Balance Sheets					
Total assets	**$1,335,083**	$407,062	$389,844	$262,459	$218,503
Long-term debt obligations, net of current maturities	**$ 254,965**	$ 87,841	$ 91,715	$ 39,039	$ 36,840
Cash dividends declared per common share	**$ —**	$ —	$ —	$ —	$ —

(1) Earnings per share amounts for fiscal 1996 and 1997 have been restated for the adoption of Statement of Financial Standards No. 128, "Earnings Per Share."

(2) Includes the acquisitions of certain assets of PPM and Stone & Webster in fiscal 2000. See Note 3 of Notes to Consolidated Financial Statements.

(3) Includes the acquisitions of certain assets of Prospect Industries plc, Lancas, C.A., Cojafex and Bagwell in fiscal 1998. See Note 3 of Notes to Consolidated Financial Statements.

(4) Includes the acquisitions of Pipe Shields Incorporated and United Crafts, Inc. and certain assets of MERIT Industrial Constructors, Inc. in fiscal 1997.

(5) Restated to account for the acquisition of NAPTech, Inc., which was completed on January 27, 1997, and which was accounted for using the pooling-of-interests method of accounting.

(6) Includes the acquisitions of the assets of Word Industries Pipe Fabricating, Inc. and certain affiliates and of Alloy Piping Products, Inc. in fiscal 1996.

(7) Fiscal 1996 and 1997 were restated to exclude the discontinued operations disposed of in fiscal 1998. See Note 18 of Notes to Consolidated Financial Statements.

The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Company's Consolidated Financial Statements, including the notes thereto.

General

The Company is the world's only vertically-integrated provider of complete piping systems and comprehensive engineering, procurement and construction services to the power generation industry. While approximately 67% of Shaw's backlog at August 31, 2000 was attributable to the power generation industry, the Company also does work in the process industries and the environmental and infrastructure sectors. The Company's financial performance is impacted by the broader economic trends affecting its customers. All of the major industries in which Shaw operates are cyclical. Because Shaw's customers participate in a broad portfolio of industries, the Company's experience has been that downturns in one of its sectors may be mitigated by opportunities in others.

The acquisition by the Company of Stone & Webster in July 2000 has more than doubled the size of the Company, increasing significantly the Company's engineering, procurement and construction businesses, and will significantly impact the Company's operations and its working capital requirements. For additional information regarding the Stone & Webster acquisition, please see Item 1—"Business," "—Liquidity and Capital Resources" and Note 3 of Notes to Consolidated Financial Statements.

As of August 31, 2000 and giving effect to the Stone & Webster acquisition, the Company's backlog was approximately $1.9 billion, of which 67% was attributable to power generation, 18% was attributable to processing and 13% was attributable to its environmental and infrastructure work. The Company estimates that approximately 49%, of its backlog at August 31, 2000 will be completed in fiscal year 2001. The Company's backlog is largely a reflection of the broader economic trends experienced by its customers and is important to Shaw in anticipating its operational needs. Backlog is not a measure defined in generally accepted accounting principles and the Company's backlog may not be comparable to backlog of other companies. The Company cannot provide any assurance that revenues projected in its backlog will be realized, or if realized, will result in profits. See "—Risk Factors" and Item 1—"Business—Backlog."

Recent Acquisitions and Disposals

Stone & Webster Acquisition

On July 14, 2000, the Company purchased most of the operating assets of Stone & Webster for $37.6 million in cash, 2,231,773 shares of its Common Stock (valued at approximately $105 million at closing) and the assumption of approximately $685 million of liabilities, subject to adjustment pending the resolution of certain claims arising from the Stone & Webster bankruptcy proceedings. The Company also incurred approximately $6 million of acquisition costs. Stone & Webster is a leading global provider of engineering, procurement, construction, consulting and environmental services to the power, process, environmental and infrastructure markets. Stone & Webster was formed in 1889 and has focused on the power generation industry for most of its existence. Stone & Webster's capabilities complement and enhance Shaw's traditional strengths in project execution and pipe fabrication and enables the Company to deliver a more complete, cost-effective package of products and services to its power and process customers. This acquisition has more than doubled the size of the Company, increasing significantly its engineering, procurement and construction businesses, and will significantly impact its operations and its working capital requirements.

Other Acquisitions

On July 12, 2000, the Company completed the acquisition of certain assets and liabilities of PPM. PPM's primary business is providing sandblasting and painting services to industrial customers. In connection with the acquisition, the Company issued 43,445 shares of its Common Stock valued at approximately $2.0 million.

On July 28, 1998, the Company completed the acquisition of all of the outstanding capital stock of Bagwell. Total consideration paid was $1.8 million of cash and acquisition costs and 645,000 shares of the Company's Common Stock valued at $13.0 million. Bagwell specializes in the fabrication and construction of offshore modules, topsides, heliports, vessels and offshore platforms, as well as management of offshore construction and maintenance work.

On January 19, 1998, the Company completed the acquisition of all of the outstanding capital stock of Cojafex of Rotterdam, Holland for $8.5 million; $4.6 million of cash and acquisition costs of which was paid at closing (net of cash received). The balance of the purchase price will be paid through December 31, 2003. Cojafex owns the technology for certain induction pipe bending machines used for bending pipe and other carbon steel and alloy items for industrial, commercial and agricultural applications, and using such technology, Cojafex designs, engineers, manufactures, markets and sells such induction bending machines.

On January 15, 1998, the Company purchased all of the outstanding capital stock of Lancas, C.A. ("Lancas"), a construction company in Punto Fijo, Venezuela for approximately $2.7 million in cash and acquisition costs, net of cash received.

On November 14, 1997, the Company purchased all of the capital stock or substantially all of the assets of the principal operating businesses of Prospect Industries plc ("Prospect") of Derby, United Kingdom, for approximately $16.6 million in cash and acquisition costs, net of cash received. Excluded from the purchase price is $1.4 million, which represents the fair value of the assets and liabilities of a

discontinued operation, CBP Engineering Corp. ("CBP"). The sale of the assets of CBP was consummated in 1998 at no gain or loss. Prospect, a mechanical contractor and provider of turnkey piping systems serving the power generating and process industries worldwide, operated through several wholly-owned subsidiaries including Connex Pipe Systems, Inc. ("Connex"), a piping systems fabrication business located in Troutville, Virginia; Aiton Australia Pty Limited ("Aiton Australia"), a piping systems, boiler refurbishment and project management company based near Sydney, Australia; and Prospect Engineering Limited ("PEL"), a mechanical contractor and a provider of turnkey piping systems located in Derby, United Kingdom. Under the terms of the acquisition agreement, the Company acquired all of the outstanding capital stock of Prospect Industries Overseas Limited, a United Kingdom holding company that held the entire ownership interest in Connex and CBP, all of the capital stock of Aiton Australia and certain assets of PEL, as well as Prospect's entire ownership interest in Inflo. The Company also assumed certain liabilities of PEL and Prospect relating to its employees and pension plans.

On October 8, 1997, the Company purchased the capital stock of Pipework Engineering and Developments Limited ("PED"), a pipe fabrication company in Wolverhampton, United Kingdom, for $699,000 in cash and acquisition costs, net of cash received, and notes payable to former stockholders of $1,078,000.

See Note 3 of Notes to Consolidated Financial Statements for discussions regarding these acquisitions.

Disposals

In June 1998, the Company adopted a plan to discontinue its operations of the following subsidiaries: Weldtech, a seller of welding supplies; its 66% interest in Inflo Control Systems Limited ("Inflo"), a manufacturer of boiler steam leak detection, acoustic mill and combustion monitoring equipment and related systems; Greenbank (a division of PEL), an abrasive and corrosion resistant pipe systems specialist; and NAPTech Pressure Systems Corporation, a manufacturer of pressure vessels. The Company sold and/or discontinued its investment in each of these operations prior to August 31, 1998. Proceeds from the sale of these operations totaled approximately $1.2 million in net cash and notes receivable of approximately $7.4 million, which resulted in a net gain on the disposal of $2.6 million, net of tax. The results of these operations have been classified as discontinued operations in the consolidated financial statements of the Company. Revenues of these discontinued operations totaled approximately $7.7 million in 1998. See Note 18 of Notes to Consolidated Financial Statements.

Results of Operations

The following table presents certain income and expense items as a percentage of sales for the years ended August 31, 2000, 1999 and 1998:

	Year Ended August 31,		
	2000	1999	1998
Sales	**100.0%**	100.0%	100.0%
Cost of sales	**83.3**	81.0	84.1
Gross profit	**16.7**	19.0	15.9
General and administrative expenses	**9.8**	12.2	9.7
Operating income	**6.9**	6.8	6.2
Interest expense	**(1.0)**	(1.8)	(1.7)
Other income, net	**0.1**	0.3	0.1
Income before income taxes	**6.0**	5.3	4.6
Provision for income taxes	**2.2**	1.8	1.4
Income from continuing operations before earnings (losses) from unconsolidated entity	**3.8**	3.5	3.2
Earnings (losses) from unconsolidated entity	**0.2**	0.2	—
Income from continuing operations	**4.0**	3.7	3.2
Discontinued operations, net of tax:			
Operating results	**—**	—	0.1
Net gain on disposals	**—**	—	0.5
Income before extraordinary item and cumulative effect of change in accounting principle	**4.0**	3.7	3.8
Extraordinary item for early extinguishment of debt, net of taxes	**(0.1)**	—	—
Cumulative effect on prior years of change in accounting for start-up costs, net of taxes	**—**	—	—
Net income	**3.9%**	3.7%	3.8%

Fiscal 2000 Compared to Fiscal 1999

Revenues increased 54.4% to $762.7 million in fiscal 2000 from $494.0 million in fiscal 1999. Revenues from both of the Company's business segments increased with the pipe services segment reflecting a $254.9 million increase or 57%. Approximately $111 million of the revenue increase was generated by the newly acquired Stone & Webster businesses (see Note 3 of Notes to Consolidated Financial Statements). Revenues from the manufacturing segment increased $13.6 million or a 29% increase. The Company anticipates

significantly higher revenue volumes in the pipe services segment next year compared to fiscal 2000 due to Stone & Webster. Gross profit increased 35.4% to $127.1 million in fiscal 2000 from $93.8 million in fiscal 1999 due to the growth in revenue volume during the year.

The Company's sales to customers in the following geographic regions approximated the following amounts and percentages:

	Fiscal 2000		Fiscal 1999	
	(in millions)	%	*(in millions)*	%
Geographic Region				
United States	**$591.8**	**77.6%**	$366.2	74.1%
Europe	**65.2**	**8.5**	49.7	10.1
Far East/Pacific Rim	**51.0**	**6.7**	41.1	8.3
South America	**29.8**	**3.9**	18.7	3.8
Other	**20.5**	**2.7**	8.1	1.6
Middle East	**4.4**	**.6**	10.2	2.1
	$762.7	**100.0%**	$494.0	100.0%

Revenues from domestic projects increased $225.6 million, or 62%, from $366.2 million for fiscal 1999 to $591.8 million for fiscal 2000. Increases were experienced in all domestic industry sectors, with power generation sales accounting for the majority of the increase. Revenues from international projects increased $43.1 million, or 34%, from $127.8 million for fiscal 1999 to $170.9 million for fiscal 2000. All international industry sectors reflected sales increases over fiscal 1999 amounts, with the primary increases being in crude oil refining revenues (part of the process industries sector) and the power generation sector. For the year ended August 31, 2000, virtually all European sector sales were to the United Kingdom. European inquiries remain strong, particularly in Spain. Sales increased in the Far East/Pacific Rim region due to work performed by the acquired Stone & Webster businesses. Bidding activity has increased in certain Far East/Pacific Rim countries, such as China, Taiwan and Malaysia. Additionally, on August 28, 2000, the Company announced the execution of a letter of intent for the construction of a $425 million 600,000 metric ton-per-year ethylene plant in China. Even though fiscal 2000 sales in the South American region increased over the prior year and inquiries are active, the Company's short-term outlook is uncertain in this region due to general economic conditions and, particularly with respect to Venezuela, political conditions. The Company continues to believe that the European, Far East/Pacific Rim, South American and Middle East markets present significant long-term opportunities for the Company.

The Company's sales to customers in the following industries approximated the following amounts and percentages:

	Fiscal 2000		Fiscal 1999	
	(in millions)	%	*(in millions)*	%
Industry Sector				
Power Generation	**$329.8**	**43.2%**	$161.8	32.8%
Process Industries	**324.0**	**42.5**	271.1	54.9
Other Industries	**86.1**	**11.3**	61.1	12.3
Environmental and Infrastructure	**22.8**	**3.0**	—	—
	$762.7	**100.0%**	$494.0	100.0%

Process industries sector sales include revenues from the chemical and petrochemical and crude oil refining industries, which in prior years have been reported separately. Other industries sales include revenues from the oil and gas exploration and production industry, which in prior years was reported separately.

Revenues from power generation projects increased both domestically and internationally. Sales related to domestic power projects increased due to additional work performed for United States customers, including the previously announced $300 million, five-year contract for General Electric. International power generation revenue increases resulted from work performed by the newly acquired Stone & Webster businesses. Revenues from power generation projects should continue to increase to the extent the Company begins performing work for EntergyShaw in fiscal 2001. Process industries sector sales also increased both domestically and internationally over 1999 revenues, principally due to sales to the crude oil refining industry. Environmental and infrastructure sales are primarily domestic and were generated by the newly acquired Stone &Webster businesses.

The gross profit margin for the year ended August 31, 2000, decreased to 16.7% from 19.0% for the same period the prior year. The Company is involved in numerous projects, all of which affect gross profit in various ways, such as product mix, pricing strategies, foreign versus domestic work (profit margins differ, sometimes substantially, depending on where the work is performed), and constant monitoring of percentage of completion calculations. The Company's gross profit margin has been declining due to the Company's increase in revenues related to its erection and maintenance services and the inclusion of Stone & Webster's procurement and construction activities, which generally carry lower margins than fabrication work. The Company expects this to continue during fiscal 2001 as a result of the impact on the Company's product mix driven primarily by the Stone & Webster businesses.

General and administrative expenses were $74.3 million for fiscal 2000, up 24% from $60.1 million for fiscal 1999. Approximately $5.3 million of the increase resulted from Stone & Webster activity since the acquisition. The remaining increase resulted primarily from higher sales levels and other normal business expenses. As a percentage of sales, however, general and administrative expenses decreased to 9.8% for the year ended August 31, 2000 from 12.2% for the year ended August 31, 1999. General and administrative expenses will increase in fiscal 2001 due to Stone & Webster; however, the Company expects a continual decline in these expenses as a percentage of sales.

Interest expense for the year ended August 31, 2000 was $8.0 million, compared to $8.6 million for the prior fiscal year. Interest expense varies from year to year due to the level of borrowings and interest rate fluctuations on variable rate loans. Prior to the Stone & Webster acquisition and the new credit facility discussed in "—Liquidity and Capital Resources" and Note 8 of the Notes to Consolidated Financial Statements, interest on the primary line of credit had decreased approximately $1.3 million in fiscal year 2000, compared to the same period in fiscal 1999, due to lower borrowings partially offset by higher interest rates. Borrowings after the Stone & Webster acquisition on the new credit facility added approximately $1.1 million of additional interest costs in fiscal 2000. The remaining $400,000 decrease relates to paydowns of debt, offset by interest on assumed Stone & Webster debt.

The Company's effective tax rates for the years ended August 31, 2000 and 1999 were 35.9% and 33.1%, respectively. The change in the tax rates relate primarily to the mix of foreign (including foreign export sales) versus domestic work. Based on the Company's current mix of foreign and domestic work coupled with an increase in nondeductible goodwill amortization from the Stone & Webster acquisition, the effective tax rate for fiscal 2001 is expected to be higher than that incurred for the year ended August 31, 2000.

Fiscal 1999 Compared to Fiscal 1998

Revenues decreased slightly to $494.0 million in fiscal 1999 from $501.6 million in fiscal 1998. Revenues in the pipe services segment reflected a nominal growth of $.8 million or .1% while the manufacturing segment reflected a decrease of $8.5 million or 15%. The Company believes that part of the decline in the manufacturing segment revenues was attributable to the price declines due to foreign producers of stainless pipe fittings flooding their products in the U.S. market. Gross profit increased 17.8% to $93.8 million in fiscal 1999 from $79.6 million in fiscal 1998. These variances are discussed below.

The Company's sales to customers in the following geographic regions approximated the following amounts and percentages:

	Fiscal 1999		Fiscal 1998	
	(in millions)	%	*(in millions)*	%
Geographic Region				
United States	$366.2	74.1%	$286.5	57.1%
Far East/Pacific Rim	41.1	8.3	100.6	20.0
Europe	49.7	10.1	55.8	11.1
South America	18.7	3.8	31.9	6.4
Middle East	10.2	2.1	18.4	3.7
Other	8.1	1.6	8.4	1.7
	$494.0	100.0%	$501.6	100.0%

Revenues from domestic projects increased $79.7 million, or 28%, from $286.5 million for fiscal 1998 to $366.2 million for fiscal 1999. Increases were experienced in all domestic industry sectors. Revenues from international projects decreased $87.3 million, or 41%, from $215.1 million for fiscal 1998 to $127.8 million for fiscal 1999. The decline in international sales was primarily attributable to decreases in activity in the power generation sector in the Far East/Pacific region and in the crude oil refining industries in South America and the Middle East and in the chemical processing industries in South America.

The Company's sales to customers in the following industries approximated the following amounts and percentages:

	Fiscal 1999		Fiscal 1998	
	(in millions)	%	*(in millions)*	%
Industry Sector				
Power Generation	$161.8	32.8%	$193.5	38.6%
Process Industries	271.1	54.9	258.9	51.6
Other Industries	61.1	12.3	49.2	9.8
	$494.0	100.0%	$501.6	100.0%

Process industries sector sales include revenues from the chemical and petrochemical and crude oil refining industries, which in prior years have been reported separately. Other industries sales include revenues from the oil and gas exploration and production industry, which in prior years was reported separately.

Although total revenues from power generation projects declined in fiscal 1999 compared to fiscal 1998, revenues from domestic power generation projects increased nearly 51% for fiscal 1999 compared to fiscal 1998 due to new domestic power generation projects, including the start-up of a previously announced $300 million, five-year contract for General Electric in August 1999. In fiscal 1999, the Company experienced a decline in international power generation project revenues, particularly in the Far East/Pacific Rim market due to general economic conditions. Revenues associated with international power generation projects declined 33% in fiscal 1999 compared to fiscal 1998.

Revenues from the process industries increased in fiscal 1999 over the prior year by $12.2 million. Revenues from the chemical processing industries increased $8.4 million due to increased domestic activity offset in part by decreased international activity. The decrease in international chemical processing revenues was due primarily to weak activity in the South American region as a result of general economic conditions. Revenues from the crude oil refining industry for fiscal 1999 increased over the prior year $25.4 million due to increases in domestic project activity exceeding declines in international project activity. Domestically, activity was positively impacted by a large construction project for a refinery in Norco, Louisiana that accounted for approximately 14% of the Company's revenues in fiscal 1999. The Company experienced a decrease in revenues from international crude oil refining primarily due to weak activity in South America (resulting from general economic conditions and recent political events, particularly in Venezuela) and the Middle East. Revenues from the petrochemical processing industry decreased significantly in both the domestic and international markets during fiscal 1999 compared to the prior year by $21.6 million. The decrease in revenues from petrochemical processing was primarily attributable to weak global demand.

Approximately 50% of the increase in fiscal 1999 sales over fiscal 1998 in other industries came from the oil and gas exploration and production industry. The increase in oil and gas exploration and production industry sales was due to sales of a subsidiary that was acquired in July 1998, which were partially offset by reductions in oil and gas project work performed by other subsidiaries. Most of revenues from this sector are domestic.

Gross profit margin for fiscal 1999 increased to 19.0% from 15.9% for the prior year. The gross profit margin was positively impacted by increased revenues from higher-margin projects in the domestic power generation, chemical processing and crude oil refining industries. The overall increase in demand for domestic power generation related projects has had a favorable impact on margins for those projects. Shaw has historically realized lower overall margins on erection and construction services because the Company generally assumes responsibility for providing all materials and subcontractor costs on these projects. These costs are typically passed through to the customer with minimal profit recognized. During fiscal 1999, the Company entered into a contract for the expansion of a refinery in Norco, Louisiana which excluded materials and subcontractor costs from the scope of services. The increase in the gross profit margin was partially offset by continued lower margins on the Company's manufactured products due to pricing pressures from foreign imports and lower margins from its foreign operations due to reduced activity in foreign power generation and petrochemical processing industries. During the second half of fiscal 1999, the Company began to experience easing of pricing pressures for foreign imports.

General and administrative expenses were $60.1 million for fiscal 1999, up 24% from $48.5 million for fiscal 1998. The increase primarily related to growth of erection and construction services and the integration of Shaw Bagwell, Inc., the Company's oil and gas services subsidiary, and Shaw Lancas, C.A., the Company's Venezuelan construction subsidiary, into its business for all of fiscal 1999.

For fiscal 1999, interest expense was $8.6 million, up $.1 million from $8.5 million in the previous year. Interest expense varies in relation to the balances in, and variable interest rates under, the Company's principal revolving line of credit facility, which has generally been used to provide working capital and fund fixed asset purchases and subsidiary acquisitions. Additionally, during fiscal 1999, the Company used its line of credit facility to purchase treasury stock totaling $13.7 million.

The Company's effective tax rates for fiscal 1998 and fiscal 1999 were 30.2% and 33.1%, respectively. The increase in the effective tax rate from 1998 to 1999 was due to the reduced amount of foreign export sales and a reduced amount of income earned in foreign jurisdictions with lower tax rates than the United States Federal rate.

Liquidity and Capital Resources

Net cash used in operations was $82.0 million for fiscal 2000, compared to net cash provided by operations of $25.6 million for fiscal 1999. For fiscal 2000, net cash was favorably impacted primarily by net income of $29.5 million, depreciation and amortization of $16.8 million, and an increase in advanced billings and billings in excess of cost and estimated earnings on uncompleted contracts of $21.8 million. Offsetting these positive factors were increases of $53.3 million in receivables, $36.2 million in cost and estimated earnings in excess of billings on uncompleted contracts, and $17.9 million in inventories, and decreases of $37.9 million in accounts payable, and $11.1 million in accrued contract losses and reserves.

The increase in advanced billings and billings in excess of cost and estimated earnings on uncompleted contracts resulted from accelerated billing provisions in more contracts. The increase in receivables and cost and estimated earnings in excess of billings on uncompleted contracts was primarily attributable to increased sales in the fourth quarter of fiscal 2000 over fiscal 1999. The increase in inventories was due to the procurement of material for current and future sales activities, which are expected to exceed historical levels based upon the Company's backlog at August 31, 2000 of approximately $1.9 billion. Accounts payable decreased primarily due to

the payment of some of the liabilities assumed in the Stone & Webster acquisition. The Company acquired a large number of contracts with either inherent losses or lower than market remaining margins due to the effect of the financial difficulties experienced by Stone & Webster on negotiating and executing the contracts. These contracts were adjusted to their fair value at acquisition date by establishing a reserve of approximately $83.7 million which will reduce contract costs incurred in future periods and adjust the gross margins recognized on the contracts. In addition, the amount of the accrued losses on assumed contracts was approximately $36.3 million. Since the date of acquisition of Stone & Webster, the Company reflected a $13.5 million net reduction of contract costs as a result of these accrued contract losses and reserves.

Net cash used in investing activities was $14.2 million for fiscal 2000, compared to $28.9 million for fiscal 1999. During fiscal 2000, the Company purchased $20.6 million of property and equipment and sold property and equipment for approximately $8.7 million. On July 14, 2000, the Company purchased substantially all of the net operating assets of Stone & Webster, Inc. for $43.6 million in cash (including $6 million of transaction costs) and 2,231,773 shares of Common Stock (valued at approximately $105.0 million). Included in the assets acquired was $42.2 million of cash; therefore, the net cash paid was approximately $2.4 million. On July 12, 2000, the Company completed the acquisition of certain assets of PPM Contractors, Inc. ("PPM"). Total consideration paid was 43,445 shares of the Company's Common Stock valued at approximately $2.0 million and the assumption of certain liabilities. Included in the PPM acquisition, the Company received approximately $.1 million of cash. During fiscal 1999, the Company embarked on its first significant project financing participation. In connection with construction and maintenance work on a refinery project in Norco, Louisiana, Shaw acquired $12.5 million of interest-bearing notes (see Note 6 of Notes to Consolidated Financial Statements). Through November 2003, the Company expects to receive additional notes in lieu of interest. This investment represents a one-time investment, although the Company may from time to time pursue similar investments on a selective basis. This type of investment will generally be limited in size to the profit expected to be received from the projects and will carry a return that the Company believes will reflect the risk inherent in its investment. During fiscal 2000, the Company did not enter into any additional project financing for its customers.

Net cash provided by financing activities totaled $111.8 million for fiscal 2000, compared to $6.8 million provided in fiscal 1999. In July 2000, in conjunction with the Stone & Webster acquisition, the Company entered into a three-year $400 million credit facility, with an aggregate revolving credit commitment of $300 million and an aggregate letter of credit commitment of $100 million. The facility permits up to $150 million in letters of credit but reduces the revolver in such event to $250 million. Upon the sale of certain of the acquired assets, the aggregate revolving credit commitment is to be reduced to $250 million. Amounts received from other asset sales may result in additional reductions. The new facility allows the Company to borrow at interest rates not to exceed 2.75% over the London Interbank Offered Rate ("LIBOR") or 1.25% over the prime rate. The index used to determine the interest rate is selected by the Company and the spread over the index is dependent upon certain financial ratios of the Company. The credit facility is secured by among other things (i) guarantees by the Company's domestic subsidiaries; (ii) the pledge of the capital stock in the Company's domestic subsidiaries; (iii) the pledge of 66% of the capital stock in certain of the Company's foreign subsidiaries; and (iv) a security interest in all property of the Company and its domestic subsidiaries (except real estate and equipment). The Company's revolving line of credit has been generally used to provide working capital and fund fixed asset and subsidiary acquisitions.

Primarily as a result of this new facility, in fiscal 2000, the Company received net proceeds from revolving credit agreements of approximately $161.1 million and repaid debt and leases of approximately $112.6 million (including $53.4 million of Senior Secured Notes and $39.0 million of debt assumed with the Stone & Webster acquisition, both of which were paid off utilizing the proceeds of the new credit facility). On November 10, 1999, the Company closed the sale of 3,000,000 shares of its Common Stock, in an underwritten public offering at a price of $21 per share, less underwriting discounts and commissions. On November 16, 1999, the underwriters for such offering exercised an option to purchase an additional 450,000 shares of Common Stock from the Company pursuant to the foregoing terms to cover over-allotments. The net proceeds to the Company, less underwriting discounts and commissions and other expenses of the offering, totaled approximately $67.5 million and were used to pay down amounts outstanding under the Company's primary revolving line of credit facility and certain other long-term debt. The Company also received approximately $2.2 million from employees upon the exercise of stock options. Outstanding checks in excess of bank balances decreased $6.6 million, as a result of the Company's entering into its new credit facility. Accordingly, the Company no longer classifies its outstanding disbursements as outstanding checks in excess of bank balances. The $6.6 million was repaid with the proceeds from the new facility.

During fiscal 1999, the Company used its revolving line of credit facility to repurchase 1,561,320 shares of the Company's Common Stock for $13.7 million (including brokerage commissions) through open market and block transactions in accordance with a plan adopted by its board of directors. In September 1999 the Company's board of directors voted to terminate its stock repurchase plan. The purchase of treasury stock in fiscal 2000 of $2.4 million resulted from the return of some shares issued in the Stone & Webster acquisition as a result of a contractual commitment to paydown some letters of credit.

Other than certain integration costs related to the Stone & Webster acquisition, the Company does not expect its capital expenditures for fiscal year 2001 to be substantially different from its historical levels.

Stone & Webster had a working capital deficit. The Company assumed a portion of this deficit through its assumption of certain contracts and their related net liability positions. This working capital deficit is approximately $118.6 million as of August 31, 2000, which excludes approximately $75 million of remaining non-cash liabilities relating to adjusting the acquired contracts to their fair value at acquisition date as discussed above. The working capital deficit does include the remaining accrued loses assumed on the contracts of approximately $30.7 million as of August 31, 2000. This working capital deficit represents future net cash expenditures primarily from billings in excess of cost and estimated earnings on completed contracts which represents work billed but not yet performed and accruals from expected losses on assumed contracts related to the Company's assumed contracts. The Company expects that this working capital deficit will be worked off during this next fiscal year.

The Stone & Webster acquisition agreement contains an adjustment provision that requires the consideration paid by the Company to be increased or decreased by the amount of the net assets or liabilities, as determined by the agreement, of the excluded items. In addition, $25 million of the acquisition proceeds was placed in escrow by the sellers to secure certain indemnification obligations of the sellers in the agreement. Subsequent to August 31, 2000, the parties entered into discussions to amend the agreement to return substantially all of the escrow funds to the Company and waive the adjustment provision in exchange for the Company's assumption of a previously excluded item. The Company believes that a final resolution will be reached regarding this amendment which would result in a net reduction of the Company's purchase price. Such adjustment is not expected to exceed the amount held in escrow. Such an agreement, even if reached among the parties, would also require bankruptcy court approval.

As of August 31, 2000, the Company has a positive working capital balance of approximately $108.7 million. Because the Stone & Webster acquisition has more than doubled the size of its operations and because a number of the contracts assumed in the acquisition will result in negative cash flow in the near term, the Company cannot provide assurance that its working capital requirements associated with its ongoing projects at any given point in time will not exceed its available borrowing capacity. To the extent the Company's working capital requirements exceed its borrowing capacity, Shaw's operations could be significantly adversely affected. See "—Risk Factors."

On September 18, 2000, the Company executed a definitive agreement with Entergy Corporation to create EntergyShaw, a new, equally-owned and jointly-managed company. As of November 17, 2000, the Company has invested $2 million into the entity, as required under the terms of the agreement. Subsequent to the execution of a letter of intent for this venture on June 2, 2000, Entergy and FPL Group, Inc., the parent of Florida Power & Light, announced a merger which will create the largest U.S. power producer with generating capacity in excess of 48,000 megawatts. EntergyShaw's initial focus will be the construction of power plants in North America and Europe for Entergy's and Florida Power & Light's unregulated wholesale operations. On a combined basis, Entergy and Florida Power & Light have approximately 70 turbines on order for their unregulated operations. The Company expects that the installation of most of these turbines will be managed by EntergyShaw, subject to the approval of its joint-management committee. The Company estimates that EntergyShaw will generate approximately $100 million in revenues per turbine installed. Shaw expects to provide the engineering, procurement, fabrication and construction requirements to EntergyShaw for these plants. Under the terms of the arrangement, the Company will present engineering, procurement and construction opportunities that it receives after December 31, 2000 for power generation projects to the new company. The Company does not believe that work performed for EntergyShaw will require a significant working capital investment due to expected terms of the contract with EntergyShaw.

In October 2000, the Company closed the sale of 2,418,669 shares (including 600,000 shares for over-allotments) of its Common Stock, in an underwritten public offering at a price of $63.50 per share, less underwriting discounts and commissions. The net proceeds to the Company, less underwriting discounts and commissions and other offering expenses, totaled approximately $145 million and were used to pay amounts outstanding under the Company's primary revolving line of credit facility. The Company's primary revolving line of credit facility has been used to provide working capital, and to fund fixed asset purchases and subsidiary acquisitions.

The Company also acquired certain assets in the Stone & Webster acquisition which it expects to sell before December 31, 2000. The Company acquired a cold storage operation which it expects to realize net proceeds of approximately $70 million when sold. In addition, the Company has an agreement to sell an office building in Houston, Texas, which would, after paying off the mortgage of approximately $19.7 million, results in the receipt by the Company of net proceeds of approximately $22 million. The net proceeds from these asset disposals will be used to pay down the Company's revolving credit facility.

As of August 31, 2000, the Company had $235 million drawn on its revolving credit facility leaving availability of approximately $65 million. The aggregate revolving credit commitment will be reduced by $50 million to $250 million upon completion of the sale of the cold storage business. However, after application of the proceeds from the stock sale of $145 million and assets sale of approximately $90 million, the Company anticipates that it will have substantially all of its credit facility available. The Company believes that working capital generated from its operations and its availability under its revolving credit facility will be adequate to fund the working capital deficit acquired in the Stone & Webster acquisition, its capital expenditures, and its normal operations for the next twelve months.

Recent Accounting Pronouncements

In June 1997, SFAS No. 131—"Disclosures about Segments of an Enterprise and Related Information" was issued. SFAS 131 requires the Company to report financial and descriptive information about its operating segments in its financial statements. The required disclosures were made for the first time in its fiscal 1999 financial statements.

In early 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities." The statement is effective for fiscal years beginning after December 15, 1998 and requires costs of start-up activities and organization costs to be expensed as incurred. Any unamortized costs on the date of adoption of the new standard is written off and reflected as a cumulative effect of a change in accounting principle. The Company adopted this new requirement in fiscal 2000. On September 1, 1999, the Company wrote off deferred organizational costs of approximately $320,000, net of taxes.

During fiscal 1999, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in a derivative's fair value are to be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133, as amended by SFAS No. 137 which defers the effective date, on September 1, 2000. Had the Company adopted SFAS 133 as of August 31, 2000, the impact on the financial position would not have been material.

In fiscal 2000, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 which establishes guidance in applying generally accepted accounting principles to revenue recognition in financial statements and is effective for fiscal 2001. The Company has determined that its existing revenue recognition practices comply with the guidance in the bulletin.

Risk Factors

Investing in the Company's Common Stock will provide an investor with an equity ownership interest in the Company. Shareholders will be subject to risks inherent in the Company's business. The performance of Shaw's shares will reflect the performance of the Company's business relative to, among other things, general economic and industry conditions, market conditions and competition. The value of the investment in the Company may increase or decline and could result in a loss. An investor should carefully consider the following factors as well as other information contained in this Form 10-K before deciding to invest in shares of the Company's Common Stock.

This Form 10-K also contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risk factors described below and the other factors described elsewhere in this Form 10-K. See "Business—Forward-Looking Statements and Associated Risks."

Demand for the Company's products and services is cyclical and vulnerable to downturns in the power generation and other industries to which the Company markets its products and services.

The demand for Shaw's products and services depends on the existence of engineering, construction and maintenance projects, particularly in the power generation industry, which accounted for 67% of its backlog as of August 31, 2000. The Company also depends to a lesser extent on conditions in the petrochemical, chemical, environmental, infrastructure and refining industries. These industries historically have been, and will likely continue to be, cyclical in nature and vulnerable to general downturns in the domestic and international economies. The Company's results of operations have varied and may continue to vary depending on the demand for future projects from these industries.

The acquisition of Stone & Webster may result in working capital requirements in excess of borrowing capacity.

As of August 31, 2000, the Company had approximately $285.2 million of debt outstanding, including $238.1 million outstanding under its revolving credit facilities. Amounts received from the proposed sale of its cold storage business will reduce the capacity under this facility by a maximum of $50 million. Amounts received from other assets sales may result in additional reductions. The Company cannot provide assurance that its credit facility capacity will be sufficient to meet its needs in the event Shaw encounters significant unforeseen working capital requirements following its acquisition of Stone & Webster. In addition, the Company's ability to meet its current debt service obligations depends on its future performance. This debt level requires Shaw to use a material portion of operating cash flow to pay interest on debt.

Stone & Webster had a working capital deficit. The Company assumed a portion of their deficit through its assumption of certain contracts and their related net liability position. This working capital deficit is approximately $118.6 million as of August 31, 2000, which excludes approximately $75 million of remaining non-cash reserves relating to adjusting the acquired contracts to their value at acquisition date as discussed above. The working capital deficit does include the remaining accrued loses assumed on the contracts of approximately $30.7 million as of August 31, 2000. The majority of this deficit was attributable to advanced billings and billings in excess of cost which generally represent work the Company has billed but not performed and accruals for contracts on which the Company expects losses. As a result, as of August 31, 2000, the Company has a positive working capital balance of approximately $108.7 million. Because the Stone & Webster acquisition has more than doubled the size of its operations and because a number of the contracts assumed in the acquisition will result in negative cash flow in the near term, the Company cannot provide assurance that its working capital requirements associated with its ongoing projects at any given point in time will not exceed its available borrowing capacity. To the extent the Company's working capital requirements exceed its borrowing capacity, Shaw's operations could be significantly adversely affected.

Additional borrowings to meet ongoing liquidity needs could significantly increase the Company's debt service obligations. These obligations could have important consequences. For example, they could:

- make it more difficult for the Company to obtain additional financing in the future for its acquisitions and operations;
- require the Company to dedicate a substantial portion of its cash flows from operations to the repayment of its debt and the interest associated with its debt;
- limit the Company's operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt, creating liens on its properties and paying dividends;
- subject the Company to risks that interest rates and its interest expense will increase;
- place the Company at a competitive disadvantage compared to its competitors with less debt; and
- make the Company more vulnerable in the event of a downturn in its business.

The dollar amount of the Company's backlog, as stated at any given time, is not necessarily indicative of its future earnings.

Shaw cannot provide assurance that the revenues projected in its backlog will be realized, or if realized, will result in profits. To the extent that Shaw experiences significant terminations, suspensions or adjustments in the scope of its projects as reflected in its backlog contracts, the Company could be materially adversely affected.

The Company defines its backlog as a "working backlog" which includes projects for which Shaw has received a commitment from its customers. This commitment takes the form of a written contract for a specific project, a purchase order or an indication of the amount of time or material Shaw needs to make available for a customer's anticipated project. In certain instances, the engagement is for a particular product or project for which Shaw estimates anticipated revenue, often based on engineering and design specifications that have not been finalized and may be revised over time. The Company's backlog for maintenance work is derived from maintenance contracts and the Company's customers' historic maintenance requirements.

Approximately $350 million, or 18%, of the Company's backlog at August 31, 2000 is attributable to a contract with General Electric which requires Shaw to fabricate at least 90% of the pipe necessary to install the combined-cycle gas turbines to be built by General Electric domestically through 2004. Approximately 40% of this backlog is for power generation projects for which General Electric has been engaged and is in various stages of design, engineering and construction, and for which Shaw has received a work release or have been notified that a work release is pending. The balance is for work for which General Electric has requested that Shaw reserve capacity. The Company cannot be assured that all of these projects will be constructed or that they will be completed in the Company's currently anticipated time-frame.

On occasion, customers will cancel or delay projects for reasons beyond the Company's control. In the event of project cancellation, Shaw may be reimbursed for certain costs but typically have no contractual right to the total revenues reflected in the Company's backlog. In addition, projects may remain in the Company's backlog for extended periods of time. If Shaw were to experience significant cancellations or delays of projects in its backlog, the Company's financial condition would be significantly adversely affected.

Difficulties integrating the Company's acquisition of Stone & Webster and other acquisitions could adversely affect Shaw.

The Stone & Webster acquisition more than doubled the size of the Company, and many of the assets acquired represent a significant expansion of what were formerly smaller pieces of its traditional lines of business. In addition, the Company has acquired some businesses which are new to Shaw. As a result, the Company may encounter difficulties integrating this acquisition and successfully managing the rapid growth the Company expects to experience from it. The Company and Stone & Webster utilize different information technology systems. If the Company decides to integrate these systems, the Company may have difficulty in doing so. To the extent the Company encounters problems in integrating the Stone & Webster acquisition and any other acquisitions, the Company could be materially adversely affected. In addition, the Company plans to pursue select acquisitions in the future. Because the Company may pursue these acquisitions around the world and may actively pursue a number of opportunities simultaneously, the Company may encounter unforeseen expenses, complications and delays, including difficulties in staffing and providing operational and management oversight.

The Company may not realize its estimated cost savings from the Stone & Webster acquisition.

The Company believes that annual cost savings in its recently acquired Stone & Webster operations could be as much as $35 million on a pre-tax basis. The Company intends to achieve such savings through reductions in personnel, office lease and business development expenses. However, the Company cannot provide assurance that these cost savings will be realized.

The Company may not receive the economic benefits expected from EntergyShaw.

On September 18, 2000, the Company executed a definitive agreement with Entergy Corporation to create EntergyShaw, a new, equally-owned and jointly-managed company. Subsequent to the execution of a letter of intent for this venture on June 2, 2000, Entergy and FPL Group, Inc., the parent of Florida Power & Light, announced a merger which will create the largest U.S. power producer with generating capacity in excess of 48,000 megawatts. EntergyShaw's initial focus will be the construction of power plants in North America and Europe for Entergy's and Florida Power & Light's unregulated wholesale operations. On a combined basis, Entergy and Florida Power & Light have approximately 70 turbines on order for their unregulated operations. The Company expects

that the installation of most of these turbines will be managed by EntergyShaw, subject to the approval of its joint-management committee. The Company estimates that EntergyShaw will generate approximately $100 million in revenues per turbine installed. Shaw expects to provide the engineering, procurement, fabrication and construction requirements to EntergyShaw for these plants. Under the terms of the arrangement, the Company will present engineering, procurement and construction opportunities that it receives after December 31, 2000 for power generation projects to EntergyShaw. The Company can provide no assurance that all or any portion of the installation of these turbines will be committed to EntergyShaw. Further, the Company provides no assurance that EntergyShaw will contract with the Company for the installation of all of these turbines.

The nature of Shaw's contracts could adversely affect the Company.

Shaw enters into fixed price, lump-sum or unit price contracts on a significant number of the Company's domestic piping contracts and substantially all of its international piping projects. In addition, a number of the contracts the Company assumed in the Stone & Webster acquisition are fixed price or lump-sum contracts. Under fixed, maximum or unit price contracts, the Company agrees to perform the contract for a fixed price and as a result, benefits from costs savings, but is unable to recover any cost overruns. Under fixed price incentive contracts, the Company shares with the customer any savings up to a negotiated ceiling price and carries some or all of the burden of costs exceeding the negotiated ceiling price. Contract prices are established based in part on cost estimates which are subject to a number of assumptions, such as assumptions regarding future economic conditions. If in the future these estimates prove inaccurate, or circumstances change, cost overruns can occur which could have a material adverse effect on the Company's business and results of its operations. Shaw's profit for these projects could decrease, or the Company could experience losses, if the Company is unable to secure fixed pricing commitments from its suppliers at the time the contracts are entered into or if the Company experiences cost increases for material or labor during the performance of the contracts.

Shaw enters into contractual agreements with customers for some of its engineering, procurement and construction services to be performed based on agreed upon reimbursable costs and labor rates. In some instances, the terms of these contracts provide for the customer's review of the accounting and cost control systems to verify the completeness and accuracy of the reimbursable costs invoiced. These reviews could result in proposed reductions in reimbursable costs and labor rates previously billed to the customer.

In addition, the Company has several significant projects for agencies of the U.S. Government. Generally, U.S. Government contracts are subject to oversight audits by government representatives, to profit and cost controls and limitations, and to provisions permitting modification or termination, in whole or in part, without prior notice, at the government's convenience and with payment of compensation only for work done and commitments made at the time of termination. In the event of termination, the Company generally receives some allowance for profit on the work performed. In some cases, government contracts are subject to the uncertainties surrounding congressional appropriations or agency funding. Government business is subject to specific procurement regulations and a variety of socio-economic and other requirements. Failure to comply with such regulations and requirements could lead to suspension or debarment, for cause, from future government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to employment practices, the protection of the environment, the accuracy of records and the recording of costs.

The Company's results of operations depend on Shaw's ability to obtain future contracts.

In the case of large-scale domestic and international projects where timing is often uncertain, it is particularly difficult to predict whether and when Shaw will receive a contract award. In addition, timing of receipt of revenues from the Company's projects can be affected by a number of factors beyond the Company's control, including unavoidable delays from weather conditions, unavailability of material and equipment from vendors, changes in the scope of services requested by clients, or labor disruptions. The uncertainty of the Company's contract award timing can also present difficulties in matching workforce size with contract needs. In some cases, Shaw maintains and bears the cost of a ready workforce that is larger than called for under existing contracts in anticipation of future workforce needs under expected contract awards. If an expected contract award is delayed or not received, the Company would incur costs that could have a material adverse effect on it.

Projects in the industries in which the Company provides products and services frequently involve a lengthy and complex bidding and selection process. Because a significant portion of the Company's sales are generated from large projects, the Company's results of operations can fluctuate from quarter to quarter. Shaw's significant customers vary between years. The loss of any one or more of the Company's key customers could have a material adverse impact on it.

Political and economic conditions in foreign countries in which Shaw operates could adversely affect the Company.

A significant portion of the Company's sales is attributable to projects in international markets. Shaw expects international sales and operations to continue to contribute materially to the Company's growth and earnings for the foreseeable future. International contracts, operations and expansion expose the Company to risks inherent in doing business outside the United States, including:

- uncertain economic conditions in the foreign countries in which Shaw makes capital investments, operates and sells products and services;
- the lack of well-developed legal systems in some countries in which Shaw operates and sells products and services, which could make it difficult for it to enforce the Company's contractual rights;

- expropriation of property;
- restrictions on the right to convert or repatriate currency; and
- political risks, including risks of loss due to civil strife, acts of war, guerrilla activities and insurrection.

For example, in fiscal 1999, the Company's international sales declined due to economic downturn in the Far East/Pacific Rim region, resulting in fewer power generation projects, and general economic conditions and political events in South America, causing a reduction in sales to the petrochemical processing industry.

Foreign exchange risks may affect the Company's ability to realize a profit from certain projects.

While Shaw attempts to denominate its contracts in United States dollars, from time to time the Company enters into contracts denominated in a foreign currency without escalation provisions. This practice subjects the Company to foreign exchange risks. In addition, to the extent contract revenues are denominated in a currency different than the contract costs, the Company increases its foreign exchange risks. The Company attempts to minimize its exposure from foreign exchange risks by obtaining escalation provisions or matching the contract revenue currency with the contract costs currency. Foreign exchange controls may also adversely affect the Company. For instance, prior to the lifting of foreign exchange controls in Venezuela in November 1995, foreign exchange controls adversely affected the Company's ability to repatriate profits from Shaw's Venezuelan subsidiary or otherwise convert local currency into United States dollars. Shaw generally does not obtain insurance for or hedge against foreign exchange risks for a material portion of its contracts. In addition, the Company's ability to obtain international contracts is impacted by the relative strength or weakness of the United States dollar relative to foreign currencies.

Failure to meet schedule or performance requirements of Shaw's contracts could adversely affect the Company.

In certain circumstances, the Company guarantees facility completion by a scheduled acceptance date or achievement of certain acceptance and performance testing levels. Failure to meet any such schedule or performance requirements could result in additional costs and the amount of such additional costs could exceed project profit margins. Performance problems for existing and future contracts, whether fixed, maximum or unit priced, could cause actual results of operations to differ materially from those anticipated by the Company.

A dependence on one or a few clients could adversely affect the Company.

Due to the size of many engineering and construction projects, one or a few clients have in the past and may in the future contribute a substantial portion of the Company's consolidated revenues in any one year, or over a period of several consecutive years. Approximately $350 million, or 18%, of the Company's backlog is attributable to a contract with General Electric, which requires Shaw to fabricate at least 90% of the pipe necessary to install the combined-cycle gas turbines to be built by General Electric domestically through 2004. The Company has had long-standing relationships with many of its significant customers, including customers with which the Company has entered into alliance agreements, that have preferred pricing arrangements; however, the Company's contracts with them are on a project by project basis and they may unilaterally reduce or discontinue their purchases at any time. The loss of business from any one of such customers could have a material adverse effect on the Company's business or results of operations.

Shaw's dependence on a few suppliers and subcontractors could adversely affect the Company.

The principal raw materials in the Company's piping systems business are carbon steel, stainless steel and other alloy piping, which Shaw obtains from a number of domestic and foreign primary steel producers. In the Company's engineering, procurement and construction services Shaw relies on third-party equipment manufacturers as well as third-party sub-contractors to complete its projects. To the extent that the Company cannot engage sub-contractors or acquire equipment or raw materials, Shaw's ability to complete a project in a timely fashion or at a profit may be impaired. To the extent the amount the Company is required to pay for these goods and services exceeds the amount the Company has estimated in bidding for lump-sum work, Shaw could experience losses in the performance of these contracts. In addition, if a manufacturer is unable to deliver the materials according to the negotiated terms, the Company may be required to purchase the materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the materials were needed.

The Company's projects expose it to potential professional liability, product liability, or warranty and other claims.

Shaw engineers and constructs (and the Company's products typically are installed in) large industrial facilities in which system failures can be disastrous. Any catastrophic occurrences in excess of insurance limits at locations engineered or constructed by the Company or where Shaw's products are installed could result in significant professional liability, product liability or warranty and other claims against it. In addition, under some of the Company's contracts, Shaw must use new metals or processes for producing or fabricating pipe for its customers. The failure of any of these metals or processes could result in warranty claims against the Company for significant replacement or reworking costs.

Further, the engineering and construction projects Shaw is performing expose it to additional risks including cost overruns, equipment failures, personal injuries, property damage, shortages of materials and labor, work stoppages, labor disputes, weather problems and unforeseen engineering, architectural, environmental and geological problems. In addition, once the Company's construction is complete, Shaw may face claims with respect to the performance of these facilities.

The indemnification provisions of the Company's acquisition agreements may not fully protect it and may result in unexpected liabilities.

Some of the former owners of companies Shaw has acquired are contractually required to indemnify the Company against liabilities related to the operation of their company before Shaw acquired it and for misrepresentations made by them in connection with the acquisition. In some cases, these former owners may not have the financial ability to meet their indemnification responsibilities. If this occurs, the Company may incur unexpected liabilities.

The Company's competitors may have greater resources and experience than Shaw does.

In the Company's engineering, procurement and construction business, Shaw has numerous regional, national, and international competitors, many of which have greater financial and other resources than Shaw does. The Company's competitors include well-established, well-financed concerns, both privately and publicly held, including many major power equipment manufacturers and engineering and construction companies, some engineering companies, internal engineering departments at utilities and certain of its customers. Because the Company is primarily a service organization, Shaw competes by providing services of the highest quality. The markets that Shaw serves require substantial resources and particularly highly skilled and experienced technical personnel.

In pipe engineering and fabrication, competition on a domestic and international level is substantial. In the United States, there are a number of smaller pipe fabricators. Internationally, the Company's principal competitors are divisions of large industrial firms. Some of the Company's competitors, primarily in the international sector, have greater financial and other resources than Shaw does.

A failure to attract and retain qualified personnel could have an adverse effect on the Company.

The Company's ability to attract and retain qualified engineers, scientists and other professional personnel, either through direct hiring or acquisition of other firms employing such professionals, will be an important factor in determining the Company's future success. The market for these professionals is competitive, and there can be no assurance that the Company will be successful in its efforts to attract and retain such professionals. In addition, Shaw's ability to be successful depends in part on its ability to attract and retain skilled laborers in its pipe fabrication business. Demand for these workers is currently high and the supply is extremely limited.

Environmental factors and changes in laws and regulations could increase the Company's costs and liabilities.

The Company is subject to environmental laws and regulations, including those concerning:

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

The Company's projects often involve nuclear, hazardous and other highly regulated materials, the improper characterization, handling or disposal of which could constitute violations of federal, state or local statutes, and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require Shaw to obtain a permit and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on the Company, or revoke or deny the issuance or renewal of operating permits, for failure to comply with applicable laws and regulations.

In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended and comparable state laws, the Company may be required to investigate and remediate hazardous substances. CERCLA and these comparable state laws typically impose liability without regard to whether a company knew of or caused the release, and liability has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis of allocation. The principal federal environmental legislation affecting the Company's environmental/infrastructure division of its principal engineering subsidiary and its clients include: the National Environmental Policy Act of 1969 ("NEPA"), the Resource Conservation and Recovery Act of 1976 ("RCRA"), the Clean Air Act, the Federal Water Pollution Control Act and the Superfund Amendments and Reauthorization Act of 1986 ("SARA"). The Company's foreign operations are also subject to various requirements governing environmental protection.

The environmental health and safety laws and regulations to which Shaw is subject are constantly changing, and it is impossible to predict the effect of such laws and regulations on the Company in the future. Shaw has not conducted environmental audits of many of its properties, including the assets the Company acquired from Stone & Webster. The Company cannot give any assurance that its operations will continue to comply with future laws and regulations or that these laws and regulations will not significantly adversely affect the Company.

If Shaw has to write-off a significant amount of intangible assets, the Company's earnings will be negatively impacted.

Because the Company has grown in part through acquisitions, goodwill and other acquired intangible assets represent a substantial portion of its assets. Goodwill was approximately $282 million as of August 31, 2000. If the Company makes additional acquisitions, it is likely that additional intangible assets will be recorded on its books. A determination that a significant impairment in value of the Company's unamortized intangible assets has occurred would require the Company to write-off a substantial portion of its assets. This write-off would negatively affect the Company's earnings.

The Company is and will continue to be involved in litigation.

The Company has been and may from time to time be named as defendants in legal actions claiming damages in connection with engineering and construction projects and other matters. These are typically claims for personal injury or property damage which occur in connection with services performed relating to project or construction sites and other actions that arise in the normal course of business, including employment-related claims and contractual disputes. Such contractual disputes normally involve claims relating to the performance of equipment design or other engineering services or project construction services provided by the Company's subsidiaries.

Certain of the Company's Stone & Webster subsidiaries have possible liabilities relating to environmental pollution. While the Company did not assume these liabilities in connection with Stone & Webster's acquisition , a federal, state or local governmental authority may seek redress from Shaw or its subsidiaries and the Company may be named as a Potentially Responsible Party in an action by such governmental authority. While the Company would vigorously contest any attempt to make the Company responsible for unassumed environmental liabilities, there can be no assurance that the Company will not be held liable in connection with such matters in amounts that would have a material adverse effect on its business and results of operations.

Work stoppages and other labor problems could adversely affect the Company.

Some of the Company's employees in the United States and abroad may be represented by labor unions. Shaw experienced a strike, without material impact on pipe production, by union members in February 1997 relating to the termination of collective bargaining agreements covering its pipe facilities in Walker and Prairieville, Louisiana. A lengthy strike or other work stoppage at any of the Company's facilities could have a material adverse effect on the Company. From time to time Shaw has also experienced attempts to unionize the Company's non-union shops. While these efforts have achieved limited success to date, the Company cannot give any assurance that it will not experience additional union activity in the future.

Changes in technology could adversely affect the Company and its competitors may develop or otherwise acquire equivalent or superior technology.

Through Stone & Webster, the Company believes that it has a leading position in technology associated with the design and construction of plants which produce ethylene, which the Company protects and develops with patent registrations, license restrictions, and a research and development program. This technology position is subject to the risk that others may develop competing processes, which could affect the Company's market position. In addition, Shaw's strengths in design and construction software, as well as power generation software, may be at risk from competitive technologies.

The Company's induction pipe bending technology and capabilities influence the Company's ability to compete successfully. However, this technology and its proprietary software are not currently patented. While the Company may have some legal protections, litigation brought by the Company in this regard could be time-consuming and expensive and could prove unsuccessful. Likewise, although the Company protects some proprietary materials and processes through non-disclosure and confidentiality agreements, the Company cannot give any assurance that these agreements will not be breached. Finally, there is nothing to prevent the Company' competitors from independently attempting to develop or obtain access to technologies that are similar or superior to Shaw's technology.

The Company's success depends on key members of its management, including J. M. Bernhard, Jr.

The Company's success is dependent upon the continued services of J. M. Bernhard, Jr., its founder, Chairman, President and Chief Executive Officer, and other key officers. The loss of Mr. Bernhard or other key officers could adversely affect the Company. The Company does not maintain key employee insurance on any of its executive officers.

Market prices of the Company's equity securities could change significantly.

The market prices of the Company's Common Stock, preferred stock or warrants may change significantly in response to various factors and events, including the following:

- the other risk factors described in this Form 10-K, including changing demand for its products and services;
- a shortfall in operating revenue or net income from that expected by securities analysts and investors;
- changes in securities analysts' estimates of the financial performance of Shaw or its competitors or the financial performance of companies in its industry generally;
- general conditions in its industry; and
- general conditions in the securities markets.

Many of these factors are beyond the Company's control.

The Company's articles of incorporation and by-laws and Louisiana law contain provisions that concentrate voting power in management and could discourage a takeover.

Because of special voting power carried by stock owned by the Company's officers and directors, as of November 16, 2000, its officers and directors controlled approximately 29% of the voting power of all of its outstanding stock. Consequently, these persons, in particular Mr. Bernhard, would be able to exercise significant influence over corporate actions and the outcome of matters requiring a shareholder vote, including the election of directors.

The Company's articles of incorporation provide that each share of Common Stock that has been held by the same person for at least four consecutive years is entitled to five votes on each matter to be voted upon at shareholders' meetings, and all shares held for less than four years are entitled to one vote per share for each matter. This charter provision concentrates control in current management and could:

- increase the difficulty of removing the incumbent board of directors or management;
- diminish the likelihood that a potential buyer would make an offer for the Common Stock; and
- impede a transaction favorable to the interests of shareholders.

In addition, certain provisions of the Company's articles of incorporation and by-laws and Louisiana law may tend to deter potential unsolicited offers or other efforts to obtain control of the Company that are not approved by its board of directors. The provisions may deprive the Company's shareholders of opportunities to sell shares of Common Stock at prices higher than prevailing market prices.

The Company's issuance of preferred stock could adversely affect shareholder rights of a holder of Common Stock and could discourage a takeover.

The Company's board of directors is authorized to issue up to 5,000,000 shares of preferred stock without any further action on the part of the Company's shareholders. In the event that Shaw issues preferred stock in the future that has preference over the Common Stock with respect to payment of dividends or upon the Company's liquidation, dissolution or winding up, rights as holders of Common Stock could be adversely affected. In addition, the ability of the Company's board of directors to issue shares of preferred stock without any further action on the part of the Company's shareholders may impede a takeover of the Company and prevent a transaction favorable to its shareholders.

Any or all of these consequences, should they materialize, could have a material adverse effect on the Company's results of operations.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company is exposed to interest rate risk due to changes in interest rates, primarily in the United States. The Company's policy is to manage interest rates through the use of a combination of fixed and floating rate debt. The Company currently does not use any derivative financial instruments to manage its exposure to interest rate risk. The table below provides information about the Company's future maturities of principal for outstanding debt instruments and fair value at August 31, 2000. All instruments described are non-trading instruments (dollars in millions).

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
Long-term debt								
Fixed rate	$23.4	$1.8	$ 1.6	$1.2	$0.4	$3.6	$ 32.0	$ 31.6
Average interest rate	6.6%	6.4%	6.5%	6.9%	7.7%	7.2%	6.7%	—
Variable rate	$ 4.0	$2.8	$ 3.0	$0.9	$4.2	$0.2	$ 15.1	$ 15.1
Average interest rate	7.9%	7.7%	7.7%	8.3%	3.8%	8.8%	6.7%	—
Short-term line of credit								
Variable rate	$ 2.9	—	—	—	—	—	$ 2.9	$ 2.9
Average interest rate	7.1%	—	—	—	—	—	7.1%	—
Long-term line of credit								
Variable rate	—	—	$235.2	—	—	—	$235.2	$235.2
Average interest rate	—	—	9.7%	—	—	—	9.7%	—

Foreign Currency Risks

Although the majority of the Company's transactions are in U.S. dollars, the Company does have certain of its subsidiaries which conduct their operations in various foreign currencies. The Company currently does not use any off-balance sheet hedging instruments to manage its risks associated with its operating activities conducted in foreign currencies unless that particular operation enters into a contract in a foreign currency which is different than the local currency of the particular operation. In limited circumstances and when considered appropriate, the Company will utilize forward exchange contracts to hedge the anticipated purchases and/or sales. The Company attempts to minimize its exposure to foreign currency fluctuations by matching its revenues and expenses in the same currency for its contracts. As of August 31, 2000, the Company has a minimal number of forward exchange contracts outstanding which are hedges of certain commitments of foreign subsidiaries. The exposure from the commitments is not material to the Company's results of operations or financial position. See Notes 1 and 17 of Notes to the Consolidated Financial Statements.

The Shaw Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of August 31, 2000 and 1999

(Dollars in thousands)	**2000**	1999
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 21,768**	$ 6,901
Accounts receivable, including retainage, net	**311,285**	122,053
Receivables from unconsolidated entity, net	**5,871**	4,310
Inventories	**131,083**	78,464
Cost and estimated earnings in excess of billings on uncompleted contracts	**108,450**	24,277
Prepaid expenses	**13,555**	4,131
Deferred income taxes	**63,858**	992
Assets held for sale	**116,501**	—
Other current assets	**18,335**	10,942
Total current assets	**790,706**	252,070
Investment in unconsolidated entity, joint ventures and limited partnerships	**14,490**	4,646
Investment in securities available for sale	**15,236**	13,830
Property and equipment:		
Transportation equipment	**4,771**	3,704
Furniture and fixtures	**40,061**	10,487
Machinery and equipment	**97,360**	73,060
Buildings and improvements	**37,922**	36,471
Land	**10,520**	7,038
	190,634	130,760
Less: Accumulated depreciation	**(46,087)**	(35,252)
	144,547	95,508
Goodwill, net of accumulated amortization of $6,375 and $3,276 at August 31, 2000 and 1999, respectively	**282,238**	32,134
Other assets	**87,866**	8,874
	$1,335,083	$407,062

(Continued)

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

As of August 31, 2000 and 1999

(Dollars in thousands, except share amounts)	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Outstanding checks in excess of bank balance	$ —	$ 6,633
Accounts payable	225,230	37,714
Accrued liabilities	147,887	28,407
Current maturities of long-term debt	27,358	8,056
Short-term revolving line of credit	2,893	43,562
Deferred revenue-prebilled	6,045	3,576
Advanced billings and billings in excess of cost and estimated earnings on uncompleted contracts	166,147	10,147
Accrued contract losses and reserves	106,489	—
Total current liabilities	682,049	138,095
Long-term revolving line of credit	235,187	—
Long-term debt, less current maturities	19,778	87,841
Deferred income taxes	6,098	6,887
Other liabilities	14,696	—
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, no par value, 50,000,000 shares authorized; 25,901,162 and 19,960,282 shares issued, respectively; 17,701,204 and 11,736,046 shares outstanding, respectively	298,005	119,353
Retained earnings	106,581	77,071
Accumulated other comprehensive income	(5,209)	(1,535)
Unearned restricted stock compensation	(59)	(125)
Treasury stock, 8,199,958 and 8,224,236 shares, respectively	(22,043)	(20,525)
Total shareholders' equity	377,275	174,239
	$1,335,083	$407,062

The accompanying notes are an integral part of these statements.

The Shaw Group Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended August 31, 2000, 1999 and 1998

(Dollars in thousands, except per share amounts)	**2000**	1999	1998
Sales	**$762,655**	$494,014	$501,638
Cost of sales	**635,579**	400,186	422,057
Gross profit	**127,076**	93,828	79,581
General and administrative expenses	**74,297**	60,082	48,503
Operating income	**52,779**	33,746	31,078
Interest expense	**(8,003)**	(8,649)	(8,471)
Other income, net	**772**	978	698
	(7,231)	(7,671)	(7,773)
Income before income taxes	**45,548**	26,075	23,305
Provision for income taxes	**16,359**	8,635	7,033
Income from continuing operations before earnings (losses) from unconsolidated entity	**29,189**	17,440	16,272
Earnings (losses) from unconsolidated entity	**1,194**	681	(40)
Income from continuing operations	**30,383**	18,121	16,232
Discontinued operations, net of taxes:			
Operating results	**—**	—	298
Net gain on disposals	**—**	—	2,647
Income before extraordinary item and cumulative effect of change in accounting principle	**30,383**	18,121	19,177
Extraordinary item for early extinguishment of debt, net of taxes of $340	**(553)**	—	—
Cumulative effect on prior years of change in accounting for start-up costs, net of taxes of $196	**(320)**	—	—
Net income	**$ 29,510**	$ 18,121	$ 19,177
Basic income per common share:			
Income per common share:			
Continuing operations	**$ 2.05**	$ 1.52	$ 1.29
Discontinued operations	**—**	—	.23
Income before extraordinary item and cumulative effect of change in accounting principle	**2.05**	1.52	1.52
Extraordinary item	**(0.04)**	—	—
Cumulative effect of change in accounting principle	**(0.02)**	—	—
Net income per common share	**$ 1.99**	$ 1.52	$ 1.52
Diluted income per common share:			
Income per common share:			
Continuing operations	**$ 1.97**	$ 1.47	$ 1.26
Discontinued operations	**—**	—	.23
Income before extraordinary item and cumulative effect of change in accounting principle	**1.97**	1.47	1.49
Extraordinary item	**(0.03)**	—	—
Cumulative effect of change in accounting principle	**(0.02)**	—	—
Net income per common share	**$ 1.92**	$ 1.47	$ 1.49

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except share amounts)	Common Stock		Unearned Restricted Stock Compensation	Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
Balance, September 1, 1997	19,151,309	$104,870	$ —	6,662,916	$ (6,828)	$ —	$ 39,773	$137,815
Comprehensive income:								
Net income	—	—	—	—	—	—	19,177	19,177
Other comprehensive income:								
Foreign translation adjustments	—	—	—	—	—	(420)	—	(420)
Comprehensive income								18,757
Restricted stock compensation	30,000	581	(581)	—	—	—	—	—
Amortization of restricted stock Compensation	—	—	214	—	—	—	—	214
Shares issued to acquire Bagwell	645,000	13,033	—	—	—	—	—	13,033
Exercise of options	116,473	876	—	—	—	—	—	876
Balance, August 31, 1998	19,942,782	119,360	(367)	6,662,916	(6,828)	(420)	58,950	170,695
Comprehensive income:								
Net income	—	—	—	—	—	—	18,121	18,121
Other comprehensive income:								
Foreign translation adjustments	—	—	—	—	—	(1,115)	—	(1,115)
Comprehensive income								17,006
Restricted stock cancellation	(15,000)	(255)	145	—	—	—	—	(110)
Amortization of restricted stock Compensation	—	—	97	—	—	—	—	97
Exercise of options	32,500	248	—	—	—	—	—	248
Purchases of treasury stock	—	—	—	1,561,320	(13,697)	—	—	(13,697)
Balance, August 31, 1999	19,960,282	119,353	(125)	8,224,236	(20,525)	(1,535)	77,071	174,239
Comprehensive income:								
Net income	—	—	—	—	—	—	29,510	29,510
Other comprehensive income:								
Foreign translation adjustments	—	—	—	—	—	(3,674)	—	(3,674)
Comprehensive income								25,836
Shares issued in public offering	3,450,000	67,487	—	—	—	—	—	67,487
Amortization of restricted stock compensation	—	—	66	—	—	—	—	66
Shares issued to acquire PPM	43,445	2,012	—	—	—	—	—	2,012
Shares issued to acquire Stone & Webster	2,231,773	105,033	—	—	—	—	—	105,033
Exercise of options	290,382	2,255	—	—	—	—	—	2,255
Tax benefit on exercise of options	—	2,739	—	—	—	—	—	2,739
Purchases of treasury stock	—	—	—	50,442	(2,392)	—	—	(2,392)
Retirement of treasury stock	(74,720)	(874)	—	(74,720)	874	—	—	—
Balance, August 31, 2000	25,901,162	$298,005	$ (59)	8,199,958	$(22,043)	$(5,209)	$106,581	$377,275

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the Years Ended August 31, 2000, 1999 and 1998

(Dollars in thousands)	**2000**	1999	1998
Cash flows from operating activities:			
Net income	**$ 29,510**	$ 18,121	$ 19,177
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**16,808**	13,271	10,280
Provision for deferred income taxes	**2,110**	3,697	40
(Earnings) losses from unconsolidated entity	**(1,194)**	(681)	40
Transaction losses	**1,805**	533	702
Gain on sale of discontinued operations	**—**	—	(3,010)
Other	**(4,700)**	(1,792)	246
Changes in assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in receivables	**(53,336)**	15,640	(38,291)
(Increase) in cost and estimated earnings in excess of billings on uncompleted contracts	**(33,833)**	(4,485)	(7,530)
(Increase) decrease in inventories	**(17,941)**	(12,243)	4,211
(Increase) decrease in other current assets	**(5,343)**	(471)	848
(Increase) decrease in prepaid expenses	**(787)**	564	(2,708)
(Increase) decrease in other assets	**(10,681)**	(954)	(1,317)
Increase (decrease) in accounts payable	**(37,886)**	(7,688)	5,842
Increase (decrease) in deferred revenue—prebilled	**2,469**	1,763	(1,769)
Increase (decrease) in accrued liabilities	**21,445**	4,326	1,660
Increase (decrease) in advanced billings and billings in excess of cost and estimated earnings on uncompleted contracts	**21,823**	(4,046)	8,355
Increase (decrease) in accrued contract losses and adjustments	**(13,508)**	—	—
Increase (decrease) in other long-term liabilities	**1,198**	—	—
Net cash provided by (used in) operating activities	**(82,041)**	25,555	(3,224)
Cash flows from investing activities:			
Investment in subsidiaries, net of cash received	**(2,342)**	—	(27,738)
Proceeds from sale of property and equipment	**8,715**	1,530	3,167
Proceeds from sale of discontinued operations	**—**	—	1,208
Purchase of property and equipment	**(20,619)**	(17,967)	(14,616)
Purchase of securities available for sale	**—**	(12,500)	—
Net cash used in investing activities	**$ (14,246)**	$ (28,937)	$ (37,979)

(Continued)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

For the Years Ended August 31, 2000, 1999 and 1998

(Dollars in thousands)	**2000**	1999	1998
Cash flows from financing activities:			
Net proceeds (repayments) from revolving credit agreements	**$ 161,140**	$ 22,720	$ (10,182)
Proceeds from issuance of debt	**2,443**	5,571	62,154
Repayment of debt and leases	**(112,555)**	(10,690)	(13,817)
Increase (decrease) in outstanding checks in excess of bank balance	**(6,610)**	2,614	1,725
Purchase of treasury stock	**(2,392)**	(13,697)	—
Issuance of common stock	**69,742**	248	876
Net cash provided by financing activities	**111,768**	6,766	40,756
Effects of exchange rate changes on cash	**(614)**	(226)	(168)
Net increase (decrease) in cash	**14,867**	3,158	(615)
Cash and cash equivalents—beginning of year	**6,901**	3,743	4,358
Cash and cash equivalents—end of year	**$ 21,768**	$ 6,901	$ 3,743
Supplemental disclosures:			
Cash payments for:			
Interest	**$ 10,033**	$ 9,151	$ 7,048
Income taxes	**$ 11,286**	$ 5,592	$ 2,873
Non-cash investing and financing activities:			
Sale of property financed through issuance of note receivable	**$ 3,960**	$ 1,400	$ —
Investment in securities available for sale acquired in lieu of interest payment	**$ 1,406**	$ 1,330	$ —
Property and equipment acquired through issuance of debt	**$ 1,467**	$ —	$ 85
Investment in subsidiaries acquired through issuance of common stock	**$ 107,045**	$ —	$ 13,033
Investment in subsidiaries acquired through issuance of debt	**$ —**	$ —	$ 4,702
Sale of subsidiaries financed through issuance of notes receivables	**$ —**	$ —	$ 8,792

The accompanying notes are an integral part of these statements.

Note 1—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of The Shaw Group Inc. (a Louisiana corporation) and its wholly-owned subsidiaries (collectively, the Company). All material intercompany accounts and transactions have been eliminated in these financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas requiring significant estimates made by management include the application of percentage of completion accounting including estimates of contract expenses and profits; recoverability of inventory and application of lower of cost or market accounting; provisions for uncollectable receivables and related claims; provision for income taxes and related valuation allowances; recoverability of goodwill and amortization of goodwill; and accruals for estimated liabilities including litigation and insurance reserves. Actual results could differ from those estimates.

Nature of Operations

The Company is a vertically-integrated provider of complete piping systems and comprehensive engineering, procurement and construction services. The Company operates primarily in the United States, the Far East/Pacific Rim, Europe, South America and the Middle East for customers in the power generation, process (including petrochemical, chemical and refining) and other industries and the environmental and infrastructure sector. The Company offers comprehensive design and engineering services, piping system fabrication, industrial construction and maintenance services, manufacturing and sale of specialty pipe fittings and design and fabrication of pipe support systems. The Company's operations are conducted primarily through wholly-owned subsidiaries and joint ventures.

Cash and Cash Equivalents

For purposes of reporting cash flows, all highly liquid investments with a maturity of three months or less when purchased are cash equivalents. At August 31, 2000 and 1999, the Company included in cash and cash equivalents approximately $1,300,000, the proceeds of which came from industrial development bond financing. These funds are required to be invested in short-term marketable securities until used for other capital improvements.

Accounts Receivable and Credit Risk

The Company's principal customers are major multi-national industrial corporations, independent and merchant power providers, governmental agencies and equipment manufacturers. Work is performed under contract and the Company believes that its credit risk is minimal. The Company grants short-term credit to its customers.

At August 31, 2000 and 1999, accounts receivable includes approximately $17,900,000 and $13,000,000, respectively, of receivables and claims due under contracts which are subject to contract renegotiations or legal proceedings and which are recorded at estimated net realizable value. At August 31, 2000, contracts with six customers made up the $17,900,000 balance discussed above. Management believes that the ultimate resolution of these disputes will not have a significant impact on future results of operations.

Allowance for Uncollectable Receivables and Contract Adjustments

The allowance for uncollectable receivables and contract adjustments of approximately $5,900,000 and $5,800,000 at August 31, 2000 and 1999, respectively, is based on management's estimate of the amount expected to be uncollectable considering historical experience and the information management is able to obtain regarding the financial condition of significant customers. Increases to the allowance for the year ended August 31, 2000 were $3,900,000 and total reductions were $3,800,000. Net reductions to this allowance were approximately $1,300,000 in fiscal 1999. The Company includes contract adjustments as an increase or reduction of sales.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) or weighted average cost methods.

Property and Equipment

Property and equipment are recorded at cost. Additions and improvements are capitalized. Maintenance and repair expenses are charged to income as incurred. The cost of property and equipment sold or otherwise disposed of and the accumulated depreciation thereon, are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

For financial reporting purposes, depreciation is provided by utilizing the straight-line method over the following estimated useful service lives:

Transportation equipment	5–15 Years
Furniture and fixtures	3– 7 Years
Machinery and equipment	3–18 Years
Buildings and improvements	8–40 Years

At August 31, 2000, the Company had equipment not yet placed into service of approximately $5,800,000.

Income Taxes

The Company provides for deferred taxes in accordance with Statement of Financial Accounting Standards No. 109—"Accounting for Income Taxes," which requires an asset and liability approach for measuring deferred tax assets and liabilities due to temporary differences existing at year end using currently enacted tax rates.

Revenues

For unit priced pipe fabrication contracts, the Company recognizes revenues upon completion of individual spools of production. A spool consists of piping materials and associated shop labor to form a prefabricated unit according to contract specifications. Spools are generally shipped to job site locations when complete. During the fabrication process, all direct and indirect costs related to the fabrication process are capitalized as work in progress. For lump-sum fabrication contracts, the Company recognizes revenues based on the percentage of completion method, measured primarily by the cost of materials for which production is complete compared with the total estimated material costs of the contract.

For project management, engineering, procurement, and construction services, the Company recognizes revenues under the percentage of completion method measured primarily on contract costs incurred to date, excluding the costs of any purchased but uninstalled materials, compared with total estimated contract costs. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned.

Revenue is recognized from consulting services as the work is performed.

The Company recognizes revenues for pipe fittings, manufacturing operations and other services primarily at the time of shipment or upon completion of the services.

Provisions for estimated losses for uncompleted contracts are made in the period in which such losses are identified. The cumulative effect of other changes, including those arising from contract penalty provisions, final contract settlements and reviews performed by customers, are recognized in the period in which the revisions are identified. To the extent that these adjustments result in a reduction or elimination of previously reported profits, the Company would report such a change by recognizing a charge against current earnings, which might be significant depending on the size of the project or the adjustment. An amount equal to the costs attributable to unapproved change orders and claims is included in the total estimated revenue when realization is probable. Profit from unapproved change orders and claims is recorded in the year such amounts are resolved.

Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Such excess costs and intangible assets of various licenses, patents, technology and related processes pertaining to the design and construction of plants which produce ethelyne (see Note 3) are being amortized on a straight-line basis over a twenty-year period. The Company periodically assesses the recoverability of the unamortized balance based on expected future profitability and undiscounted future cash flows of the acquisitions and their contribution to the overall operation of the Company. Should the review indicate that the carrying value is not recoverable, the excess of the carrying value over the undiscounted cash flows would be recognized as an impairment loss.

Financial Instruments, Forward Contracts—Non-Trading Activities

When considered appropriate, the Company utilizes forward foreign exchange contracts to hedge firm purchases and sales of certain pipe bending machines and other transactions. Financial instruments are designated as a hedge at inception where there is a direct relationship to the price risk associated with the Company's future sales and purchases. Gains and losses on the early termination or maturity of forward contracts designated as hedges are deferred and included in revenues in the period the hedged transaction is recorded. If the direct relationship to price risk ceases to exist, the difference in the carrying value and fair value of a forward contract is recognized as a gain or loss in revenues in the period the direct relationship ceases to exist. Future changes in fair value of the forward contracts are recognized as gains or losses in revenues or expenses in the period of change.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," which was required to be adopted by the Company in the first quarter of fiscal 1999, establishes standards for the reporting and display of comprehensive income as part of a full set of financial statements. Comprehensive income for a period encompasses net income and all other changes in a company's equity other than from transactions with the company's owners.

The foreign currency translation adjustments relate to the varying strength of the U.S. dollar in relation to the British pound, Australian and Canadian dollar and Dutch guilder. The Company's comprehensive income is included in the consolidated statements of shareholders' equity.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements in order to conform to current year's presentation.

New Accounting Standards

In early 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP"). The SOP is effective for fiscal years beginning after December 15, 1998 and requires costs of start-up activities and organization costs to be expensed as incurred. Any such unamortized costs on the date of adoption of the new standard is written off and reflected as a cumulative effect of a change in accounting principle. The Company adopted this new requirement in fiscal 2000. On September 1, 1999, the Company wrote off deferred organizational costs of approximately $320,000, net of taxes.

During fiscal 1999, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in a derivative's fair value are to be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133, as amended by SFAS No. 137 which defers the effective date, on September 1, 2000. Had the Company adopted SFAS 133 as of August 31, 2000, the impact on the financial position would not have been material.

In fiscal 2000, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 which establishes guidance in applying generally accepted accounting principles to revenue recognition in financial statements and is effective for fiscal 2001. The Company has determined that its existing revenue recognition practices comply with the guidance in the bulletin.

Note 2—Public Offering of Common Stock

On November 10, 1999, the Company completed the sale of 3,000,000 shares of its common stock, no par value (the "Common Stock"), in an underwritten public offering at a price of $21 per share, less underwriting discounts and commissions. On November 16, 1999, the underwriters for such offering exercised an option to purchase an additional 450,000 shares of Common Stock from the Company pursuant to the foregoing terms to cover over-allotments. The net proceeds to the Company, less underwriting discounts and commissions and other expenses of the offering, totaled approximately $67,500,000 and were used to pay down amounts outstanding under the Company's primary revolving line of credit facility and certain other long-term debt.

In October 2000, the Company completed the sale of 2,418,669 shares (including 600,000 shares for over-allotments) of its common stock, no par value (the "Common Stock"), in an underwritten public offering at a price of $63.50 per share, less underwriting discounts and commissions. The net proceeds to the Company, less underwriting discounts and commissions and other offering expenses, totaled approximately $145 million and were used to pay amounts outstanding under the Company's primary revolving line of credit facility. The Company's primary revolving line of credit facility has been used to provide working capital, and to fund fixed asset purchases and subsidiary acquisitions.

Note 3—Acquisitions

Stone & Webster Acquisition

On July 14, 2000, the Company purchased substantially all of the operating assets of Stone & Webster, Incorporated ("Stone & Webster") for $37,600,000 in cash, 2,231,773 shares of Common Stock (valued at approximately $105,000,000 at closing) and the assumption of approximately $685,000,000 of liabilities, subject to adjustment pending the resolution of certain claims arising from the Stone & Webster bankruptcy proceedings. The Company also incurred approximately $6,000,000 of acquisition costs. Stone & Webster is a global provider of engineering, procurement, construction, consulting and environmental services to the power, process, environmental and infrastructure markets. The Company believes that, pursuant to the terms of the acquisition agreement, it assumed only certain specified liabilities. The Company believes that it did not assume, among other liabilities, liabilities associated with certain contracts in progress, completed contracts, claims or litigation that relate to acts or events occurring prior to the acquisition date, and certain employee benefit obligations, including Stone & Webster's U.S. defined benefit plan (collectively, the excluded items). The Company can, however, provide no assurance that it will have no exposure with respect to such excluded liabilities.

The acquisition agreement contains an adjustment provision that requires the consideration paid by the Company to be increased or decreased by the amount of the net assets or liabilities, as determined by the agreement, of the excluded items. In addition, $25,000,000 of the acquisition proceeds were placed in escrow by the sellers to secure certain indemnification obligations of the sellers in the agreement. Subsequent to August 31, 2000, the parties entered into discussions to amend the agreement to return substantially

all of the escrow funds to the Company and waive the adjustment provision in exchange for the Company's assumption of a previously excluded item. The Company believes that a final resolution will be reached regarding this amendment which would result in a net reduction of the Company's purchase price and goodwill. Such adjustment is not expected to exceed the amount held in escrow. Such an agreement, even if reached among the parties, would also require bankruptcy court approval.

The Company acquired a large number of contracts with either inherent losses or lower than market remaining margins primarily due to the effect that the financial difficulties experienced by Stone & Webster had on negotiating and executing the contracts. These contracts were adjusted to their fair value at acquisition date by establishing a liability of approximately $83,700,000 which will adjust the gross margins recognized on the contracts as the work is performed. The amount of the accrued losses on assumed contracts was approximately $36,300,000. These adjustments will result in a net reduction of contract costs incurred in future periods. For the period from the acquisition of Stone & Webster (July 14, 2000) through August 31, 2000, cost of sales were reduced by $13,508,000 as these reserves were reduced.

The acquisition was concluded as part of a proceeding under Chapter 11 of the U. S. Bankruptcy Code. The bankruptcy court has not finalized its validation of claims filed with the court. As a result, the final amount of assumed liabilities may change, although the Company believes, based on its review of claims filed, that any adjustment to the assumed liabilities will not be material.

The Company also assumed certain severance and change in control obligations under executive employment agreements. The Company has recorded a liability of approximately $22,400,000 related to the executives who were not retained. This amount is included as a liability in the purchase price allocation below. No amounts related to this liability were paid as of August 31, 2000.

The Company assumed liabilities and outstanding disputes with certain customers as part of the acquisition. Simultaneously with the closing of the acquisition, the Company entered into several agreements with certain customers and bonding companies to settle these disputes. These agreements resulted in the bonding companies agreeing to pay the Company approximately $28 million to assume several contracts, and in the Company agreeing to pay several customers and suppliers of Stone & Webster fixed amounts to settle their claims and disputes. Included in other noncurrent liabilities are the present value of the amounts the Company agreed to pay to settle these items, less the portion which will be paid in the current year.

The Company acquired a cold storage and frozen-food handling operation as part of this acquisition. Stone & Webster had previously reported this operation as a discontinued operation, and the Company has entered into an agreement to sell this operation. Accordingly, this operation has been reported as an asset held for sale in the accompanying balance sheet. The Company expects to close the sale by December 31, 2000. The Company recorded the assets held for sale at the expected sales price pursuant to the agreement adjusted for the expected net operating results of the business. From the Company's acquisition of Stone & Webster to August 31, 2000, losses of approximately $1,093,000 from this operation's results, which includes allocated interest expense of approximately $1,000,000, have been excluded from the Company's statement of income. Any difference between the expected final disposition proceeds related to this operation and the estimated proceeds of $70,000,000 will be reflected as an adjustment to the purchase price allocation presented below; however, the Company does not expect this difference to be material. In addition, the Company has an agreement to sell an office building in Houston, Texas, which would, after paying off the mortgage of approximately $19,700,000, result in net proceeds of approximately $22,000,000. The net proceeds from these asset disposals will be used to pay down the Company's revolving credit facility.

The purchase method was used to account for the acquisition of Stone & Webster. Goodwill and other purchased intangibles are being amortized over 20 years using the straight-line method. The purchase price was allocated to acquired assets and liabilities based on estimated fair value as of July 14, 2000 as follows (in thousands):

Accounts receivable	$ 139,720
Cost and estimated earnings in excess of billings on uncompleted contracts	49,113
Inventories	34,800
Assets held for sale	116,501
Patents, licenses and other intangible assets	50,000
Property and equipment	48,779
Deferred income taxes	65,765
Other assets	35,025
Goodwill	251,462
Accounts payable and accrued liabilities	(326,768)
Billings in excess of cost and estimated earnings on uncompleted contracts	(131,966)
Accrued contract losses and adjustments	(119,997)
Debt and bank loans	(92,497)
Other liabilities	(13,498)
Purchase price (net of cash received of $42,194)	$ 106,439

The operating results of the Stone & Webster businesses have been included in the Consolidated Statements of Income from the date of acquisition, July 14, 2000.

The Company acquired various licenses, patents, technology and related processes pertaining to the design and construction of plants which produce ethelyne. The associated intangible asset has been estimated in the purchase price allocation at $50,000,000. The Company is in the process of obtaining an appraisal of these assets, which it expects to receive before December 31, 2000. The final amount allocated to this asset will result in an adjustment to the purchase price allocation to the extent the appraisal is different than the estimated fair value assigned by the Company.

The following summarized unaudited pro-forma income statement data reflects the impact the Stone & Webster acquisition would have had on 2000 and 1999, had the acquisition taken place at the beginning of the applicable fiscal year (in thousands, except per share data):

	Unaudited Pro-forma Results for the Years Ended August 31,	
	2000	1999
Gross revenue	**$1,643,000**	$1,416,000
Loss from continuing operations	**$ (10,000)**	$ (47,000)
Basic earnings from continuing operations per common share	**$ (0.61)**	$ (1.77)
Diluted earnings from continuing operations per common share	**$ (0.61)**	$ (1.77)

The unaudited pro-forma results for the years ended August 31, 2000 and 1999 have been prepared for comparative purposes only and do not purport to be indicative of the amounts which actually would have resulted had the acquisition occurred on September 1, 1998 or which may result in the future.

Other Acquisitions

On July 12, 2000, the Company completed the acquisition of certain assets and assumption of liabilities of PPM Contractors, Inc. ("PPM"). Total consideration paid was 43,445 shares of the Company's Common Stock valued at $2,012,000 and the assumption of certain liabilities. Acquisition costs were not material. The purchase method was used to account for the acquisition. Goodwill of approximately $2,100,000 is being amortized on a straight-line basis over 20 years. PPM's primary business is providing sandblasting and painting services to industrial customers. The operating results of PPM have been included in the Consolidated Statements of Income from the date of acquisition.

On July 28, 1998, the Company completed the acquisition of all of the outstanding capital stock of Bagwell Brothers, Inc. and a subsidiary (collectively, Bagwell). Total consideration paid was $1,600,000 cash and 645,000 shares of the Company's Common Stock valued at $13,033,000. The Company also incurred $163,000 of acquisition costs. The purchase method was used to account for the acquisition. Goodwill of approximately $11,300,000 is being amortized on a straight-line basis over 20 years. The operating results of Bagwell have been included in the Consolidated Statements of Income from the date of acquisition.

On January 19, 1998, the Company completed the acquisition of all of the outstanding capital stock of Cojafex, B.V. of Rotterdam, Holland (Cojafex) for approximately $8,500,000; $4,547,000 (net of cash received) of which was paid at closing. The balance of the purchase price will be paid through December 31, 2003. Acquisition costs of approximately $60,000 were incurred by the Company. Cojafex owns the technology for certain induction pipe bending machines used for bending pipe and other carbon steel and alloy items for industrial, commercial and agricultural applications, and using such technology, Cojafex designs, engineers, manufactures, markets and sells such induction bending machines. Goodwill, which is being amortized over 20 years using the straight-line method, was approximately $8,500,000. The purchase method was used to account for this acquisition. The operating results of Cojafex have been included in the Consolidated Statements of Income from the date of acquisition.

On January 15, 1998, the Company purchased all of the outstanding capital stock of Lancas, C.A. (Lancas), a construction company in Punto Fijo, Venezuela for approximately $2,600,000 in cash, net of cash received. The Company also incurred approximately $100,000 of acquisition costs. Goodwill of approximately $400,000 is being amortized over 20 years, using the straight-line method. The purchase method was used to account for this acquisition. The operating results of Lancas have been included in the Consolidated Statements of Income from the date of acquisition.

On November 14, 1997, the Company purchased all of the capital stock or substantially all of the assets of the principal operating businesses of Prospect Industries plc (Prospect) of Derby, United Kingdom, for approximately $14,600,000 in cash, net of cash received. Acquisition costs of approximately $2,000,000 were incurred by the Company. Excluded from the purchase price is $1,438,000, which represents the fair value of the assets and liabilities of a discontinued operation, CBP Engineering Corp. (CBP). The sale of CBP was completed in 1998 and no gain or loss was recorded. Prospect, a mechanical contractor and provider of turnkey piping systems serving the power generating and process industries worldwide, operated through several wholly-owned subsidiaries including Connex Pipe Systems, Inc. (Connex), a piping systems fabrication business located in Troutville, Virginia; Aiton Australia Pty Limited (Aiton Australia), a piping systems, boiler refurbishment and project management company based near Sydney, Australia; and Prospect Engineering Limited (PEL), a mechanical contractor and a provider of turnkey piping systems located in Derby, United Kingdom. Under the terms of the acquisition agreement, the Company acquired all of the outstanding capital stock of Prospect Industries Overseas Limited, a United Kingdom holding company that held the entire ownership interest in Connex and CBP, all of the capital stock of Aiton Australia and certain assets of PEL, as well as Prospect's entire ownership interest in Inflo. The Company also assumed certain liabilities of PEL and Prospect relating to its employees and pension plans including approximately $3,800,000 of costs related to the Company's plan to reduce the workforce at Prospect. These costs relate to amounts due to employees under statutory and contractual severance entitlements. All amounts related to the severance entitlements have been paid as of August 31, 1999. The purchase method was used to account for the acquisition. Goodwill, which is being amortized over 20 years using the straight-line method, was approximately $2,400,000. The operating results of the Prospect businesses have been included in the Consolidated Statements of Income from the date of the acquisition.

On October 8, 1997, the Company purchased the capital stock of Pipework Engineering and Developments Limited (PED), a pipe fabrication company in Wolverhampton, United Kingdom, for $539,000 in cash, net of cash received, and notes payable to former stockholders of $1,078,000. Acquisition costs of approximately $160,000 were incurred by the Company. The purchase method was used to account for the acquisition. Goodwill, which is being amortized over 20 years using the straight-line method, was approximately $1,600,000. The operating results of PED have been included in the Consolidated Statements of Income of the Company from the date of acquisition.

The pro-forma effect of these other acquisitions as though they had occurred as of the beginning of the immediate proceeding fiscal year is not material to the operations of the Company.

Note 4—Inventories

The major components of inventories consist of the following (in thousands):

	August 31,					
	2000			1999		
	Weighted Average	**FIFO**	**Total**	Weighted Average	FIFO	Total
Finished Goods	**$36,158**	**$ —**	**$ 36,158**	$29,886	$ —	$29,886
Raw Materials	**2,270**	**45,175**	**47,445**	1,628	34,927	36,555
Work In Process	**1,626**	**45,854**	**47,480**	1,306	10,717	12,023
	$40,054	**$91,029**	**$131,083**	$32,820	$45,644	$78,464

Note 5—Investment in Unconsolidated Entities

During the years ended August 31, 2000 and 1999, the Company has not made any additional investments in Shaw-Nass Middle East, W.L.L., the Company's Bahrain joint venture (Shaw-Nass). The Company owns 49% of Shaw-Nass and accounts for this investment on the equity basis. As such, during the years ended August 31, 2000, 1999, and 1998, the Company recognized earnings (losses) of $1,194,000, $681,000, and $(40,000), respectively, from Shaw-Nass. No distributions have been made through August 31, 2000 by Shaw-Nass. As of August 31, 2000 and 1999, the Company had outstanding receivables from Shaw-Nass totaling $5,871,000 and $4,310,000, respectively. These receivables relate primarily to inventory and equipment sold and net short-term advances to Shaw-Nass.

During 2000, 1999 and 1998, revenues of $19,000, $1,188,000, and $1,626,000, were recognized on sales of products from the Company to Shaw-Nass. The Company's 49% share of profit on these sales was eliminated. At August 31, 2000, undistributed earnings of Shaw-Nass included in the consolidated retained earnings of the Company amounted to approximately $2,169,000.

On September 18, 2000, the Company executed a definitive agreement with Entergy Corporation to create EntergyShaw, a new, equally-owned and jointly-managed company. Subsequent to the execution of a letter of intent for this venture on June 2, 2000, Entergy and FPL Group, Inc., the parent of Florida Power & Light, announced a merger which will create the largest U.S. power producer with generating capacity in excess of 48,000 megawatts. EntergyShaw's initial focus will be the construction of power plants in North America and Europe for Entergy's and Florida Power & Light's unregulated wholesale operations. On a combined basis, Entergy and Florida Power & Light have approximately 70 turbines on order for their unregulated operations. The Company expects that the installation of most of these turbines will be managed by EntergyShaw, subject to the approval of its joint-management committee. Shaw expects to provide the engineering, procurement, fabrication and construction requirements to EntergyShaw for these plants. Under the terms of the arrangement, the Company will present engineering, procurement and construction opportunities that it receives after December 31, 2000 for power generation projects to EntergyShaw.

As is common in the engineering, procurement and construction industries, Stone & Webster executed certain contracts jointly with third parties through joint ventures, limited partnerships and limited liability companies. The Company acquired their interests in the investments by assuming the related contracts (see Note 3). The investments included on the accompanying consolidated balance sheet as of August 31, 2000 are $8,650,000 which approximates the Company's estimated net value in these investments.

Note 6—Investment In Securities Available for Sale

In connection with its construction services, the Company embarked on its first significant project financing participation on December 15, 1998. As a result, the Company acquired $12,500,000 of 15% Senior Secured Notes due December 1, 2003 (the "15% Notes"), issued by a customer, together with certain preferred stock related thereto, also issued by the customer. The 15% Notes were secured originally by a first priority security interest in some of the assets in the customer's refinery located in Norco, Louisiana, at which the Company was providing construction services.

On November 17, 1999, pursuant to an exchange offer initiated by the customer in October 1999, to all of the holders of the 15% Notes (aggregating approximately $254,000,000 in principal and interest), the Company exchanged its 15% Notes for (i) $14,294,535 (representing the principal and accrued interest on the Company's 15% Notes) of 10% Senior Secured Notes due November 15, 2004 (the "New Notes"), and (ii) shares of Class A Convertible Preferred Stock. The 10% interest rate on the New Notes will increase to 14% on November 16, 2003, and will continue at such rate until maturity. Through November 15, 2003, the Company expects to receive additional New Notes in lieu of interest payments.

Pursuant to the New Notes exchange offer, the customer issued an aggregate of approximately $254,000,000 of the New Notes to the holders of the 15% Notes. The Company participated in the New Notes exchange offer because, upon receipt of the requisite approval by the holders of the 15% Notes, the collateral securing the 15% Notes would be released. All holders of the 15% Notes participated in the New Notes exchange offer.

Prior to the exchange offer, the Company's customer incurred additional secured indebtedness of approximately $150,000,000 ranking senior to the 15% Notes. Such indebtedness also ranks senior to the New Notes. As such, the security interest in the refinery assets securing the New Notes is subordinate to the security interest securing such additional indebtedness. Simultaneous with the incurrence of additional secured indebtedness, the customer issued additional common stock, raising $50,000,000 of equity.

Since the New Notes are available for sale, Statement of Financial Accounting Standards (SFAS) No. 115—"Accounting for Certain Investments in Debt and Equity Securities" requires that they be measured at fair value in the Company's consolidated balance sheet and that unrealized holding gains and losses, net of taxes, for these investments be reported in a separate component of shareholders' equity until realized. Based on issuance of additional debt securities by the customer during fiscal year 1999, the raising of $50,000,000 of additional equity, and the completion of the refinery project, the Company believes that the New Notes had an aggregate value approximating the outstanding principal amount of $15,236,000 at August 31, 2000. As a result, no unrealized gain or loss is recognized in shareholders' equity. Since the financing arrangement is related to construction services, the interest income of $1,406,000 in 2000 and $1,330,000 in 1999 from the 15% Notes and the New Notes is included in sales, and the interest cost of $1,106,000 in 2000 and $621,000 in 1999 associated with carrying the 15% Notes and the New Notes is included in cost of sales in the statements of income. The interest cost was calculated at the Company's effective borrowing rate, which approximated 7.6% and 7.0% for the twelve months ended August 31, 2000 and 1999, respectively.

In November 1999, the Company also exchanged the related preferred stock for shares of new Class C Convertible Preferred Stock, the amount and value of which are not material.

Note 7—Long-Term Debt

Long-term debt consisted of (dollars in thousands):

	August 31, 2000	1999
Note payable to an insurance company, interest payable at 6.44%; secured by assets held for sale with an approximate net book value of $42,000 at August 31, 2000	**$ 19,728**	$ —
Notes payable to a finance company; variable interest rates based on 30-day commercial paper rates plus 190 to 235 basis points ranging from 7.41% to 8.38% as of August 31, 2000; payable in monthly installments based on amortization over the respective note lives; maturing from 2001 to 2006; secured by property and equipment with an approximate net book value of $10,645 as of August 31, 2000 and guaranties by the Company and certain subsidiaries of the Company	**5,816**	11,827
Note payable to a mortgage company, interest payable monthly at 7.20%; monthly payments of $35 through June 2019 secured by land, buildings and equipment with an approximate net book value of $7,251 at August 31, 2000	**4,280**	4,383
South Carolina Revenue Bonds payable; principal due in 2005; interest paid monthly accruing at a variable rate of 3.60% as of August 31, 2000; secured by $4,000 letter of credit	**4,000**	4,000
Note payable to a bank; interest payable quarterly based upon London Interbank Offering Rate (LIBOR) plus 1.6%; payable in quarterly principal installments of $264 with remaining balance due in June 2003; secured by equipment with an approximate net book value of $8,591 as of August 31, 2000	**3,171**	4,229
Notes payable to former owners of Cojafex in conjunction with an acquisition; payable in annual installments of $750 (including interest imputed at 6.56%) through December 31, 2003; secured by the stock of the acquired subsidiary	**2,566**	3,112
Note payable to a bank; variable interest rate based upon London Interbank Offering Rate (LIBOR) plus 1.4%; payable in quarterly principal installments of $143 through July 2004 plus interest; secured by equipment with an approximate net book value of $1,515 as of August 31, 2000	**2,143**	2,714
Note payable to a finance company, interest payable monthly at 7.52%; monthly payments of $175 through January 2001; unsecured	**1,530**	—
Capital leases payable; interest rates ranging from 2.64% to 14%; payable in monthly installments based on amortization over the respective lease lives; maturing from 2000 through 2003	**1,360**	84
Note payable to a bank; interest payable quarterly at 7.23%; quarterly payments of $52 through April 2005; secured by equipment with an approximate net book value of $683 as of August 31, 2000	**828**	969
Note payable to a former employee relating to a non-competition agreement; Interest payable monthly at 7.125%; monthly payments of $21 until April 2004; unsecured; see Note 16—Related Party Transactions	**804**	990
Notes payable to a bank and finance company; interest rates ranging from 7.82% to 9.25%; payable in monthly installments based on amortization over the respective note lives; maturing from 2000 to 2009; secured by property and equipment with an approximate net book value of $661 as of August 31, 2000	**730**	—
Senior secured notes payable primarily to insurance companies; interest payable semi-annually at 6.44% and 6.93% respectively; payable in annual principal installments of $2,857 beginning May 1999 and $5,714 beginning May 2002, respectively; rank in pari passu with the Company's U.S. revolving credit facility (see Note 8—Revolving Lines of Credit); secured by domestic subsidiary accounts receivable, inventory, intangible assets, and bank deposits with an approximate net book value of $212,000 as of August 31, 1999, as well as by the pledge of the capital stock of certain of the Company's domestic subsidiaries	**—**	57,143
Mortgages payable to a bank; interest payable monthly at 8.38%; monthly payments of $10 and $27 with remaining balance due on June 2002; secured by real property with an approximate net book value of $2,350 as of August 31, 1999	**—**	2,922
Mortgage payable to an insurance company; variable interest rate based on average weekly yield of 30 day commercial paper plus 2.35%; payable in monthly installments of $40 through June 2007; secured by land and buildings with an approximate net book value of $1,787 as of August 31, 1999	**—**	2,773
Mortgage payable to a bank; interest payable monthly at 8.63%; monthly installments of $8 with remaining balance due on November 2001; secured by real property with an approximate net book value of $661 as of August 31, 1999	**—**	479
Note payable to a former employee relating to a non-competition agreement; Interest payable monthly at 7%; monthly payments of $5 until August 2000; unsecured; see Note 16—Related Party Transactions	**—**	57
Other notes payable; interest rates ranging from 7% to 8.25%; payable in monthly installments based on amortization over the respective note lives; maturing from 1999 through 2002	**180**	215
Total debt	**47,136**	95,897
Less: current maturities	**(27,358)**	(8,056)
Total long-term portion of debt	**$ 19,778**	$87,841

Annual maturities of long-term debt during each year ending August 31, are as follows (in thousands):

	Minimum Lease Payments	Note Payments	Total
2001	$ 777	$ 26,650	$ 27,427
2002	465	4,180	4,645
2003	206	4,363	4,569
2004	—	2,131	2,131
2005 and thereafter	—	8,452	8,452
Total payments	1,448	45,776	47,224
Less: amount representing interest	(88)	—	(88)
Total debt	1,360	45,776	47,136
Less: current portion	(708)	(26,650)	(27,358)
Total long-term portion of debt	$ 652	$ 19,126	$ 19,778

The estimated fair value of long-term debt as of August 31, 2000 and 1999 was approximately $46,700,000 and $91,700,000 respectively, based on borrowing rates currently available to the Company for notes with similar terms and average maturities.

Note 8—Revolving Lines of Credit

In July 2000, in conjunction with the Stone & Webster acquisition, the Company entered into a three-year $400,000,000 credit facility, with an aggregate revolving credit commitment of $300,000,000 and an aggregate letter of credit commitment of $100,000,000. The facility permits up to $150,000,000 in letters of credit but reduces the revolver in such event to $250,000,000. Upon the sale of the assets of the cold storage business acquired from Stone & Webster (see Note 3), the aggregate revolving credit commitment is to be reduced to $250,000,000. Amounts received from the asset sales may result in additional reductions. The new facility allows the Company to borrow at interest rates not to exceed 2.75% over the London Interbank Offered Rate ("LIBOR") or 1.25% over the prime rate. The index used to determine the interest rate is selected by the Company and the spread over the index is dependent upon certain financial ratios of the Company. Since inception of this new credit agreement through August 31, 2000, the maximum amount outstanding under this revolving credit facility was $240,439,000, and the average amount outstanding was $205,175,000 at a weighted average interest rate of 9.70%. The credit facility is secured by among other things (i) guarantees by the Company's domestic subsidiaries; (ii) the pledge of the capital stock in the Company's domestic subsidiaries; (iii) the pledge of 66% of the capital stock in certain of the Company's foreign subsidiaries; and (iv) a security interest in all property of the Company and its domestic subsidiaries (except real estate and equipment). The revolving credit agreement contains restrictive covenants, which include ratios and minimum capital levels, among other restrictions. As of August 31, 2000, the Company was in compliance with the covenants and had approximately $64,813,000 available under the facility. Since the agreement matures in July 2003, the outstanding balance at August 31, 2000 of $235,187,000 is classified as a long-term liability.

The July 2000 facility replaced the previous credit facility entered into by the Company in May 1998, which allowed the Company to borrow up to $100,000,000 at interest rates not to exceed 2.00% over LIBOR or .75% over the prime rate. The Company amended this facility in September 1999, to extend the expiration date to May 31, 2002. The amendment also modified the interest rate spread, not to exceed 2.50% over LIBOR or 1.75% over the prime rate, and certain financial covenants and ratios. During fiscal 2000 and 1999, the maximum amount outstanding under this revolving credit facility was $60,842,000 and $80,532,000 respectively, and the average amount outstanding was approximately $29,819,000 and $55,006,000 respectively, at weighted average interest rates of 7.31% and 6.53% respectively.

In 1998, a foreign subsidiary of the Company initiated an overdraft credit facility with a bank for up to £3,000,000, payable on demand. The facility is secured by the assets of the subsidiary and a £10,000,000 ($14,600,000) limited guarantee given by the Company. The facility was extended for one year in March 2000. The new facility was for £2,500,000 ($3,600,000) at the bank's base rate plus 1.125%. In September 2000, the facility was increased to £3,500,000 ($5,100,000) at the same interest rate. Since amounts borrowed are payable on demand, the balance outstanding at August 31, 2000 of $2,893,000 is classified as a short-term liability. The outcome of the negotiations to renew or replace this overdraft credit facility at its expiration date is not expected to have any material adverse effect on the future operations of the Company.

Note 9—Income Taxes

The significant components of deferred tax assets and liabilities are as follows (in thousands):

	August 31, 2000	1999
Assets:		
Tax basis of inventory in excess of book basis	**$ 535**	$ 371
Receivables	**8,824**	—
Self-insurance reserves	**238**	620
Net operating loss and tax credit carry forwards	**1,976**	1,457
Accrued severance	**8,978**	—
Contract reserves	**40,306**	—
State tax credits	**150**	628
Other expenses not currently deductible	**6,826**	1,248
Less: valuation allowance	**(670)**	(937)
Total assets	**67,163**	3,387
Liabilities:		
Property, plant and equipment	**(7,636)**	(7,456)
Receivables	**—**	(1,121)
Pension	**(1,767)**	(705)
Total liabilities	**(9,403)**	(9,282)
Net deferred tax assets (liabilities)	**$57,760**	$(5,895)

Income (loss) before provision for income taxes for the years ended August 31 was as follows (in thousands):

	2000	1999	1998
Domestic	**$45,532**	$ 27,663	$12,764
Foreign	**16**	(1,588)	10,541
Total	**$45,548**	$ 26,075	$23,305

The provision for income taxes for the years ended August 31 was as follows (in thousands):

	2000	1999	1998
Current	**$13,549**	$ 4,534	$ 6,874
Net operating loss utilized	**(305)**	—	(200)
Deferred	**2,110**	3,697	40
State	**1,005**	404	319
Total	**$16,359**	$ 8,635	$ 7,033

A reconciliation of Federal statutory and effective income tax rates for the years ended August 31 was as follows:

	2000	1999	1998
Statutory rate	**35%**	35%	35%
State taxes provided	**2**	1	1
Foreign income taxed at different rates	**(3)**	(2)	(6)
Other	**2**	1	3
State tax credits	**—**	(2)	(3)
	36%	33%	30%

As of August 31, 2000, for Federal income tax return purposes, the Company had approximately $3,500,000 of U.S. net operating loss carryforwards available to offset future taxable income of its Connex subsidiary. The carryforwards expire beginning in 2011 through 2014. As of August 31, 2000, the Company's United Kingdom operations had net operating loss carryforwards of approximately £1,224,000 ($1,786,000), which can be used to reduce future taxable income in the United Kingdom. As of August 31, 2000, a benefit of $305,000 had been given to these losses in the accompanying financial statements. Due to the current operating environment in that market; however, a valuation allowance is provided for these loss carryforwards.

Unremitted foreign earnings reinvested abroad upon which deferred income taxes have not been provided aggregated approximately $8,210,000 at August 31, 2000. Due to the timing and circumstances of repatriation of such earnings, if any, it is not practicable to determine the unrecognized deferred tax liability relating to such amounts. Withholding taxes, if any, upon repatriation would not be significant.

Note 10—Common Stock

The Company has one class of Common Stock. Each outstanding share of Common Stock which has been held for four consecutive years without an intervening change in beneficial ownership entitles its holder to five votes on each matter properly submitted to the

Company's shareholders for their vote, waiver, release or other action. Each outstanding share of Common Stock which has been held for less than four consecutive years entitles its holder to only one vote. Also, the Board of Directors is authorized to approve the issuance of preferred stock.

Note 11—Operating Leases

The Company leases certain offices, fabrication shops, warehouse facilities, office equipment and machinery under non-cancelable operating lease agreements which expire at various times and which require various minimum rentals. The non-cancelable operating leases which were in effect as of August 31, 2000 require the Company to make the following future minimum lease payments:

For the year ending August 31 (in thousands):

2001	$ 14,429
2002	11,924
2003	11,232
2004	10,959
2005 and thereafter	55,701
Total future minimum lease payments	$104,245

The Company enters into short-term lease agreements for equipment needed to fulfill the requirements of specific jobs. Any payments owed or committed under these lease arrangements as of August 31, 2000 are not included as part of total minimum lease payments. Rent expense for the fiscal years ended August 31, 2000, 1999 and 1998 was $16,391,000, $8,297,000 and $7,902,000, respectively.

Note 12—Commitments and Contingencies

In the normal course of business activities, the Company enters into contractual agreements with customers for certain construction services to be performed based on agreed upon reimbursable costs and labor rates. In some instances, the terms of these contracts provide for the customer's review of the accounting and cost control systems to verify the completeness and accuracy of the reimbursable costs invoiced. These reviews could result in proposed reductions in reimbursable costs and labor rates previously billed to the customer. The Company does not believe that any such reviews will result in a material change to the Company's financial position or results of operations.

The Company has posted letters of credit aggregating approximately $75,000,000 as of August 31, 2000 to secure its performance under certain contracts and insurance arrangements.

During 2000 and 1999, the Company was self-insured for workers' compensation claims in certain states up to certain policy limits. Claims in excess of $250,000 per incident are insured by third-party reinsurers. Additionally, in fiscal 2000, the Company changed from a fully-insured plan for worker's compensation claims in states not self-insured to a plan with a $250,000 per incident deductible. The Company has accrued a liability for its estimated workers' compensation claims totaling approximately $1,040,000 and $821,000 at August 31, 2000 and 1999, respectively.

During 2000 and 1999, certain subsidiaries of the Company (excluding Stone & Webster) were self-insured for health claims up to certain policy limits. Claims in excess of $125,000 per covered individual and approximately $9,000,000 to $10,000,000 in the aggregate per year are insured by third-party reinsurers. The Company had accrued a liability of $1,381,000 and $1,198,000 at August 31, 2000 and 1999, respectively, for outstanding and incurred, but not reported, claims based on historical experience. Stone & Webster is also self-insured for health claims up to certain policy limits; at August 31, 2000, the Company had accrued a liability of $476,000 to cover health claims incurred since the date of acquisition for its Stone & Webster employees.

In the normal course of its business, the Company becomes involved in various litigation matters including, among other things, claims by third parities for alleged property damages, personal injuries, and other matters. While the Company believes it has meritorious defenses against these claims, management has used estimates in determining the Company's potential exposure and has recorded reserves in its financial statements related thereto where appropriate. It is possible that a change in the Company's estimates of that exposure could occur, but the Company does not expect such changes in estimate costs will have a material effect on the Company's financial position or results of operations. See Note 3 of Notes to Consolidated Financial Statements with respect to certain contingencies relating to the Stone & Webster acquisition.

Note 13—Business Segments, Operations by Geographic Region and Major Customers

Business Segments

The Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), Disclosures about Segments of an Enterprise and Related Information," as of August 31, 1999. SFAS 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures

about products and services, geographic areas and major customers. SFAS 131 defined operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has aggregated its business activities into two operating segments: the pipe services segment and the manufacturing and distribution segment.

The pipe services segment supplies complete piping systems, as well as other services, for projects in the power generation, process, and environmental and infrastructure industries. Services include piping systems fabrication, engineering and design, construction, procurement and maintenance, and consulting.

The manufacturing and distribution segment (previously named the manufacturing segment) offers its capabilities to its customers by manufacturing and distributing specialty stainless, alloy and carbon steel pipe fittings. These fittings include stainless and other alloy elbows, tees, reducers and stub ends. The Company has one manufacturing facility which distributes its products to the pipe services segment of the Company enhancing the Company's piping package, as well as to third parties. The Company also has several distribution centers in the United States, which distribute its products primarily to third parties.

Business Segment Data

The following table presents information about segment profit and assets (in thousands):

	Pipe Services	Manufacturing and Distribution	Corporate	Total
Fiscal 2000				
Sales to external customers	$ 701,700	$60,955	$ —	$ 762,655
Intersegment sales	23	15,343	—	15,366
Corporate overhead allocations	20,360	4,244	(24,604)	—
Interest income	185	—	497	682
Interest expense	203	—	7,800	8,003
Depreciation and amortization	13,354	2,192	1,262	16,808
Earnings from unconsolidated entity	1,194	—	—	1,194
Income tax expense	12,733	1,230	2,396	16,359
Net income	22,760	2,361	4,389	29,510
Total assets	1,209,792	64,612	60,679	1,335,083
Investment in unconsolidated entity	5,840	—	—	5,840
Purchases of property and equipment	11,383	737	8,499	20,619
Other increases in long-lived assets, net	—	288	10,950	11,238
Fiscal 1999				
Sales to external customers	$ 446,708	$47,306	$ —	$ 494,014
Intersegment sales	—	19,914	566	20,480
Corporate overhead allocations	9,214	1,586	(10,800)	—
Interest income	234	4	227	465
Interest expense	3,906	1,323	3,420	8,649
Depreciation and amortization	10,431	2,028	812	13,271
Earnings from unconsolidated entity	681	—	—	681
Income tax expense	10,196	(64)	(1,497)	8,635
Net income	20,449	(165)	(2,163)	18,121
Total assets	319,904	54,833	32,325	407,062
Investment in unconsolidated entity	4,646	—	—	4,646
Purchases of property and equipment	9,441	869	7,657	17,967
Other increases in long-lived assets, net	66	—	48	114
Fiscal 1998				
Sales to external customers	$ 445,866	$55,772	$ —	$ 501,638
Intersegment sales	—	22,538	569	23,107
Corporate overhead allocations	4,800	2,340	(7,140)	—
Interest income	174	17	60	251
Interest expense	4,520	1,477	2,474	8,471
Depreciation and amortization	7,272	2,264	744	10,280
Earnings (loss) from unconsolidated entity	(40)	—	—	(40)
Income tax expense	8,198	707	(1,872)	7,033
Income (loss) from discontinued operations	3,563	(618)	—	2,945
Net income	21,544	689	(3,056)	19,177
Total assets	312,145	55,675	22,024	389,844
Investment in unconsolidated entity	3,965	—	—	3,965
Purchases of property and equipment	12,564	1,201	851	14,616
Other increases in long-lived assets, net	25,196	15	2,142	27,353

Operations by Geographic Region

The following tables present geographic sales and long-lived assets (in thousands):

	Years Ended August 31,		
	2000	1999	1998
Sales:			
United States	**$591,812**	$365,942	$286,574
China	**11,436**	30,795	56,069
England	**63,886**	49,822	52,219
Other Far East/Pacific Rim countries	**39,546**	10,257	47,025
Other European countries	**1,288**	160	1,057
South America	**29,788**	18,736	31,877
Middle East	**4,382**	10,181	18,374
Other	**20,517**	8,121	8,443
	$762,655	$494,014	$501,638

	August 31,		
	2000	1999	1998
Long-lived assets:			
United States	**$406,483**	$109,466	$105,741
England	**38,778**	12,639	13,167
Other foreign countries	**23,880**	19,057	19,942
	$469,141	$141,162	$138,850

Sales are attributed to geographic regions based on location of customer. Long-lived assets include all long-term assets except those specifically excluded under SFAS No. 131, such as deferred income taxes and securities available for sale.

Information about Major Customers

The Company's customers are principally major multi-national industrial corporations, independent and merchant power providers, governmental agencies and equipment manufacturers. For the year ended August 31, 2000, sales to a customer were $85,000,000, or 11% of sales. Additionally, for the years ended August 31, 2000 and 1999, sales to a different customer amounted to $83,400,000 (11% of sales) and $67,700,000 (14% of sales), respectively. For the year ended August 31, 1998, sales to another customer totaled $51,700,000, or 10% of sales.

Export Sales

For the years ended August 31, 2000, 1999, and 1998, the Company has included as part of its international sales approximately $49,000,000, $58,000,000, and $104,000,000, respectively, of exports from its domestic facilities.

Note 14—Earnings Per Common Share

Basic earnings per common share were computed by dividing net income by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings per common share were determined on the assumptions that all dilutive stock options (see Note 15 of Notes to Consolidated Financial Statements) were exercised and stock was repurchased using the treasury stock method, at the average price for each year. The Company adopted SFAS No. 128 effective December 15, 1997. The following table sets forth the computation of basic and diluted income from continuing operations per share:

	For the Years Ended August 31,		
	2000	1999	1998
Income from continuing operations (dollars in thousands)	**$30,383**	$18,121	$16,232
Shares:			
Weighted average number of common shares outstanding	**14,817,754**	11,934,595	12,616,997
Net effect of dilutive stock options	**567,804**	420,831	214,980
Weighted average number of common shares outstanding, plus assumed exercise of stock options	**15,385,558**	12,355,426	12,831,977
Income from continuing operations:			
Basic earnings per share	**$ 2.05**	$ 1.52	$ 1.29
Diluted earnings per share	**$ 1.97**	$ 1.47	$ 1.26

At August 31, 2000, 1999, and 1998, the Company had dilutive stock options of 1,980,868, 1,188,500, and 343,905, respectively, which were assumed exercised using the treasury stock method. The resulting net effect of stock options was used in the calculation of

diluted income per common share for each period. Additionally, the Company had 12,000, 53,000, and 74,341, of stock options at August 31, 2000, 1999, and 1998, respectively, which were excluded from the calculation of diluted income per share because they were antidilutive.

Note 15—Employee Benefit Plans

The Company has a 1993 Employee Stock Option Plan (the Plan) under which both qualified and non-qualified options and restricted stock may be granted. As of August 31, 2000, approximately 1,356,000 shares of Common Stock were reserved for issuance under the Plan. The Plan is administered by a committee of the Board, which selects persons eligible to receive options and determines the number of shares subject to each option, the vesting schedule, the exercise price, and the duration of the option. The exercise price of any option granted under the Plan cannot be less than 100% of the fair market value on the date of grant and its duration cannot exceed 10 years. Only qualified options have been granted under the Plan.

Shares of restricted stock are subject to risk of forfeiture during the vesting period. Restrictions related to these shares and the restriction terms are determined by the committee. Holders of restricted stock have the right to vote the shares. During the year ended August 31, 1998, the Company issued 30,000 shares of restricted stock which had a weighted average grant-date fair value of $19.38. During fiscal 1999, 15,000 shares were cancelled, and at August 31, 2000 and 1999, 15,000 shares remain outstanding.

In fiscal 1997, the Company adopted a Non-Employee Director Stock Option Plan. Each member of the Board of Directors who is not, and who has not been during the one year period immediately preceding the date the director is first elected to the Board, an officer or employee of the Company or any of its subsidiaries or affiliates, is eligible to participate in the Plan. A committee of two or more members of the Board who are not eligible to receive grants under the Option Plan administers the Plan. Upon adoption, options to acquire an aggregate of 20,000 shares of Common Stock were issued. Additionally, each eligible director will be granted an option to acquire 1,500 shares of Common Stock on an annual basis upon his election or re-election to the Board of Directors. An aggregate of 50,000 shares of Common Stock have been reserved for issuance under the Option Plan.

In conjunction with the acquisition of Stone & Webster (see Note 3 of Notes to Consolidated Financial Statements) the Company established The Shaw Group Inc. Stone & Webster Acquisition Stock Option Plan to award options to employees of the Company who were not officers of the Company, as defined in the Plan, and who either (i) became employed by the Company as a result of the acquisition of Stone & Webster, or (ii) were instrumental in the ultimate completion of the acquisition of Stone & Webster. As of August 31, 2000, 1,000,000 shares of Common Stock were reserved for issuance under this Plan. The Plan is administered by a committee of the Board, which selects persons eligible to receive options and determines the number of shares subject to each option, the vesting schedule, the exercise price, and the duration of the option. The exercise price of any option granted under the Plan cannot be less than 100% of the fair market value on the date of grant and its duration cannot exceed 10 years. Only non-qualified options have been granted under the Plan.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) which is effective for the Company's fiscal year beginning September 1, 1996. Under SFAS No. 123, companies can either record expense based on the fair value of stock-based compensation upon issuance or elect to remain under the APB 25 method whereby no compensation cost is recognized upon grant if certain requirements are met. The Company has elected to continue to account for its stock-based compensation under APB 25. However, pro-forma disclosures, as if the Company adopted the cost recognition requirements under SFAS No. 123, are presented below.

Had compensation cost been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net income and earnings per common share would have approximated the pro-forma amounts below:

	For the Years Ended August 31,		
	2000	1999	1998
Net income from continuing operations (in thousands):			
As reported	**$30,383**	$18,121	$16,232
Pro-forma	**$28,373**	$17,398	$15,751
Basic earnings per share from continuing operations:			
As reported	**$ 2.05**	$ 1.52	$ 1.29
Pro-forma	**$ 1.91**	$ 1.46	$ 1.25
Diluted earnings per share from continuing operations:			
As reported	**$ 1.97**	$ 1.47	$ 1.26
Pro-forma	**$ 1.84**	$ 1.41	$ 1.23

The pro-forma effect on net earnings for 1999 and 1998 is not representative of the pro-forma effect on net earnings in future years because it does not take into consideration pro-forma compensation expense related to grants prior to September 1, 1995.

The following table summarizes the activity in the Company's stock option plans:

	Shares	Weighted Average Exercise Price
Outstanding at September 1, 1997	455,344	$ 9.827
Granted	87,000	$23.920
Exercised	(116,473)	$ 7.511
Canceled	(7,625)	$ 6.449
Outstanding at August 31, 1998	418,246	$13.465
Granted	1,086,250	$ 8.820
Exercised	(32,500)	$ 7.654
Canceled	(214,246)	$16.925
Outstanding at August 31, 1999	1,257,750	$ 9.053
Granted	1,058,000	$41.443
Exercised	(290,382)	$ 7.767
Canceled	(32,500)	$ 8.375
Outstanding at August 31, 2000	1,992,868	$26.396
Exercisable at August 31, 2000	225,493	$11.405

As of August 31, 2000, 1999, and 1998, the number of shares relating to options exercisable under the stock option plans was 225,493; 262,750, and 191,996; respectively, and the weighted average exercise price of those options was $11.405, $9.324, and $20.608, respectively.

The weighted average fair value at date of grant for options granted during 2000, 1999, and 1998 was $33.43, $5.23 and $13.21 per share, respectively. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions in 2000, 1999, and 1998, respectively: (a) dividend yield of 0.00%, 0.00% and 0.00%; (b) expected volatility of 70%, 65% and 59%; (c) risk-free interest rate of 6.0%, 5.1% and 5.8%; and (d) expected life of 5 years, 5 years and 5 years.

The following table summarizes information about stock options outstanding as of August 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 5.875–$ 6.750	65,250	4.6 Yrs	$ 6.626	65,250	$ 6.626
$ 8.375–$ 8.375	786,618	8.1 Yrs	$ 8.375	107,243	$ 8.375
$13.188–$16.500	26,250	8.7 Yrs	$15.215	7,500	$15.313
$19.500–$23.063	67,250	7.7 Yrs	$21.358	33,500	$21.845
$32.875–$42.000	1,047,500	9.9 Yrs	$41.764	12,000	$32.875
	1,992,868	8.9 Yrs	$26.396	225,493	$11.405

During 1994, the Company, excluding NAPTech, adopted a voluntary 401(k) profit sharing plan for substantially all employees who are not subject to collective bargaining agreements. The plan provides for the eligible employee to contribute from 1% to 15% of annual compensation, subject to an annual limit as determined under federal law, with the Company matching 50% of the employee's eligible contribution up to 6% of the employee's annual compensation. The Company's expense for this plan during 2000, 1999, and 1998 was approximately $1,509,000, $1,278,000 and $813,000, respectively.

The Company has a voluntary 401(k) profit sharing plan which covers substantially all of Stone & Webster's U.S. based full time employees who meet certain eligibility requirements. The plan allows employee participants an election to defer a percentage of their compensation up to the limitations as determined under federal law. In addition, the Company contributes a matching amount equal to 25% of the employees' elective deferral to the plan, up to the first 5% of the employees' annual compensation. The Company's expense for this plan from the date of acquisition (July 14, 2000) to August 31, 2000 was approximately $195,000.

The Company has a qualified, contributory 401(k) savings plan covering all employees of NAPTech who belong to the Certified Metal Trades Journeymen collective bargaining unit. The Company is required to make a contribution of 3% of participants' compensation on an annual basis. The Company's expense for this plan was approximately $22,000, $18,000 and $61,000 for the years ended August 31, 2000, 1999, and 1998, respectively.

The Company has a defined benefit pension plan for employees of Connex. Effective January 1, 1994, no new participants were admitted to the plan. The pension plan's benefit formulas generally base payments to retired employees upon their length of service. The pension plan's assets are invested in fixed income assets, equity based mutual funds, and money market funds. At August 31, 2000, the fair market value of the plan assets was $1,646,000, which exceeded the estimated projected benefit obligation.

The Company's subsidiaries in the United Kingdom (U.K.) and Canada have defined benefit plans covering their employees. The first U.K. plan was acquired November 14, 1997 through an acquisition. It is a salary-related plan for certain employees and admittance to this plan is now closed. The employees in this plan contribute 7% of their salary. The Company contribution depends on length of service, the employee's salary at retirement, and the earnings of the fund investments. If the plan's earnings are sufficient, the Company makes no contributions. The Canadian plan and second U.K. plan were acquired July 14, 2000 in conjunction with the Stone & Webster acquisition. The Canadian plan is noncontributory and the benefits are based primarily on years of service and employees' career average pay; admittance to this plan is now closed. The Company's policy is to make contributions equal to the current year cost plus amortization of prior service cost. The second U.K. plan is contributory and the benefits are based primarily on years of service and employees' average pay during their last ten years of service. From the dates of acquisition to August 31, 2000, 1999 and 1998, the Company recognized (credits) expenses of approximately $(145,000), $(18,000), and $111,000, respectively, for these plans.

Included in the amounts as of and for the year ended August 31, 2000 are the two pension plans assumed by the Company in the Stone & Webster acquisition. The projected benefit obligation of these two plans at the date of the acquisition of $59,821,000 and the fair value of the assets at the date of acquisition of $63,418,000 are included in the table below at the start of the year.

The following table sets forth the pension cost from the dates of acquisition to August 31, 2000, and the plans' funded status as of August 31, 2000, 1999 and 1998 in accordance with the provisions of Statement of Financial Accounting Standards No. 132—"Employers' Disclosure about Pensions and Other Postretirement Benefits" (in thousands):

	For the Years Ended August 31,		
	2000	1999	1998
Change in Projected Benefit Obligation			
Projected benefit obligation at the start of the year	**$ 76,970**	$17,133	$14,593
Service cost	**458**	253	284
Interest cost	**1,435**	914	711
Member's contributions	**218**	132	153
Actuarial loss/ (gain)	**432**	—	1,053
Benefits paid	**(971)**	(452)	(330)
Foreign currency exchange rate changes	**(2,949)**	(831)	669
Projected benefit obligation at the end of the year	**75,593**	17,149	17,133
Change in Plan Assets			
Fair value of the assets at the start of the year	**82,715**	17,437	15,582
Actual return on plan assets	**2,861**	2,949	1,333
Employer contributions	**457**	111	—
Employee contributions	**218**	132	153
Benefits paid	**(971)**	(452)	(330)
Foreign currency exchange rate changes	**(3,267)**	(881)	699
Fair value of the assets at the end of the year	**82,013**	19,296	17,437
Funded status	**6,420**	2,147	304
Unrecognized net loss/ (gain)	**(1,378)**	(1,146)	615
Prepaid benefit cost	**$ 5,042**	$ 1,001	$ 919
Weighted Average Assumptions			
Discount rate at end of the year	**5.5–6.5%**	5.5%	5.5%
Expected return on plan assets for the year	**7.0–8.75%**	7.0%	7.0%
Rate of compensation increase at end of the year	**4.5–5.0%**	4.5%	4.5%
Components of Net Periodic Benefit Cost			
Service cost	**$ 458**	$ 253	$ 284
Interest cost	**1,435**	914	711
Expected return on plan assets	**(2,038)**	(1,185)	(884)
Total net periodic benefit cost (credit)	**$ (145)**	$ (18)	$ 111

The Company also has a money purchase pension plan for employees of one of its United Kingdom subsidiaries. The employer and employee make matching contributions between 3% and 6% of employees' salaries depending on age. For the years ended August 31, 2000 and 1999, the expense was approximately $100,000 and $78,000, respectively. From date of acquisition through August 31, 1998, the Company's expense for this plan was approximately $98,000.

The Canadian pension plan acquired as part of the Stone & Webster acquisition also includes a defined contribution component. The employee can contribute up to 4% of compensation. The employer will contribute an amount equal to the sum of: (i) a basic contribution of 2.5% of compensation, and (ii) a matching contribution equal to 25% of the employee's contribution. From the date of acquisition (July 14, 2000) to August 31, 2000, the expense was approximately $43,000 (U.S. dollars) for this plan.

The Company contributes to a Group Employee superannuation fund for its employees in Australia. This fund is a defined contribution fund with both employees and the Company contributing a fixed percentage of salary each week. The Company also contributes to Industry Funds for its employees. These Funds are also defined contribution funds with the Company contributing a fixed amount each week for each employee. All members are entitled to benefits on termination due to retrenchment, retirement, death or disability. The Company is under no obligation to make up any shortfall in the funds assets to meet payments due to employees. For the years ended August 31, 2000 and 1999, the Company expensed in U.S. dollars $52,000 and $82,000 for this plan, respectively. From the date of acquisition to August 31, 1998, the Company expensed $139,000 (U.S. dollars) for this plan.

Note 16—Related Party Transactions

The Company has entered into employment agreements with its Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Under the terms of the agreements, the executives are entitled to receive their base salaries and participation in the Company's bonus plan and other employee benefit plans and programs for the periods of time specified therein. In the event of termination as a result of certain reasons, the executives will be entitled to receive their base salaries and certain other benefits for the remaining term of their agreement. Additionally, in the event of an executive's death, his estate is entitled to certain payments and benefits.

The Company has entered into several loan agreements with key management, some of which were non-interest bearing. The impact of discounting such loans to record interest income is not significant. The balance of these employee loan receivables as of August 31, 2000, 1999, and 1998 was approximately $1,663,000, $1,579,000 and $996,000, respectively. These balances are included in other assets.

During 1996 and 1997, in connection with certain acquisitions, the Company has entered into non-competition agreements with several key employees. Related assets totaling approximately $691,000 (net of accumulated amortization of $1,577,000) are included in other assets and are being amortized over five to eight years using the straight-line method. Any corresponding liabilities are included in long-term debt as further discussed in Note 7 of Notes to Consolidated Financial Statements.

A director of the Company was a managing director of the investment banking firm that was an underwriter and acted as one of the representatives of the underwriters for the public offering of 3,000,000 shares of Common Stock discussed in Note 2 of Notes to Consolidated Financial Statements. The Company also granted to the underwriters an option to purchase up to an additional 450,000 shares of Common Stock pursuant to such terms to cover over-allotments, which over-allotment option was exercised. The closing of such public offering was completed in November 1999, at a price of $21.00 per share, less the underwriting discounts and commissions of approximately $4,313,000. Approximately $150,000 of these commissions were earned by the director's investment banking firm. The same investment banking firm handled the repurchase of some of the shares of the Company's Common Stock which began in fiscal 1999, earning approximately $74,000 in commissions.

A director of the Company is an owner of construction companies that were used primarily as a sub-contractor by the Company. During fiscal 2000 and 1999, payments to these construction companies were not material. During fiscal 1998, the Company paid these construction companies approximately $4,000,000 for work performed.

Note 17—Foreign Currency Transactions

The Company's wholly-owned subsidiaries in Venezuela had net assets of approximately $15,100,000 and $16,100,000 denominated in Venezuelan Bolivars as of August 31, 2000 and 1999, respectively. In accordance with SFAS 52, "Foreign Currency Translation," the U.S. dollar is used as the functional reporting currency since the Venezuelan economy is defined as highly inflationary. Therefore, the assets and liabilities must be translated into U.S. dollars using a combination of current and historical exchange rates.

During 1996, the Venezuelan government lifted its foreign exchange controls. Subsequent to this action, the Bolivar devalued from 170 to 690 (at August 31, 2000) to the U.S. dollar. During 2000, 1999 and 1998, the Company recorded losses of approximately $1,756,000, $652,000 and $734,000, respectively, in translating the assets and liabilities of its Venezuelan subsidiaries into U.S. dollars. Because these losses were partially offset by inflationary billing provisions in certain Company contracts, the $1,756,000, $652,000 and $734,000 were offset against sales.

Other foreign subsidiaries maintain their accounting records in their local currency (primarily British Pounds, Australian and Canadian Dollar, and Dutch Guilder). The currencies are converted to U.S. dollars with the effect of the foreign currency translation reflected in "accumulated other comprehensive income," a component of shareholders' equity, in accordance with SFAS No. 52 and SFAS No 130—"Reporting Comprehensive Income." Foreign currency transaction gains or losses are credited or charged to income. At August 31, 2000 and 1999 respectively, cumulative foreign currency translation adjustments related to these subsidiaries reflected in shareholders' equity amounted to $5,209,000 and $1,535,000; transaction gains (losses) reflected in income amounted to ($48,000) and $119,000 in the years ended August 31, 2000 and 1999, respectively.

Note 18—Discontinued Operations

In June 1998, the Company adopted a plan to discontinue its operations of the following subsidiaries: Weldtech, a seller of welding supplies; Inflo Control Systems Limited (Inflo), a manufacturer of boiler steam leak detection, acoustic mill and combustion

monitoring equipment and related systems; Greenbank (a division of PEL), an abrasive and corrosion resistant pipe systems specialist; and NAPTech Pressure Systems Corporation, a manufacturer of pressure vessels and truck tanker trailers. The Company sold and/or discontinued its investment in each of these operations prior to August 31, 1998. Proceeds from the sale of these operations totaled approximately $1,200,000 in net cash and notes receivable of approximately $7,400,000, which resulted in a net gain on the disposal of $2,647,000, net of tax. The results of these operations have been classified as discontinued operations in the consolidated financial statements of the Company. Revenues of these discontinued operations totaled approximately $7,700,000 in 1998.

Note 19—Unbilled Receivables, Retainage Receivables and Costs and Estimated Earnings on Uncompleted Contracts

In accordance with normal practice in the construction industry, the Company includes in current assets and current liabilities amounts related to construction contracts realizable and payable over a period in excess of one year. Unbilled work represents the excess of contract costs and profits recognized to date on the percentage of completion accounting method over billings to date on certain contracts. Deferred contract revenue represents the excess of billings to date over the amount of contract costs and profits recognized to date on the percentage of completion accounting method on the remaining contracts.

Included in accounts receivable is $17,465,000 and $12,338,000 at August 31, 2000 and 1999, respectively, related to unbilled receivables. Advanced billings on contracts as of August 31, 2000 and 1999 was $15,992,000 and $7,025,000, respectively. Balances under retainage provisions totaled $32,449,000 and $4,554,000 at August 31, 2000 and 1999, respectively, and are also included in accounts receivable in the accompanying consolidated balance sheets.

The table below shows the components of costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on the Company's most significant uncompleted contracts as of August 31, 2000 and 1999. Contracts assumed in the Stone & Webster acquisition include cumulative balances from the origination of these contracts and, therefore, include amounts which were earned prior to the acquisition by the Company. In addition, the amounts below do not include accrued contract losses and reserves as of August 31, 2000. Included as a net amount in other are certain time and material and other smaller uncompleted contracts (in thousands):

	For the Years Ended August 31, 2000	1999
Costs incurred on uncompleted contracts	**$ 1,562,444**	$ 149,115
Estimated earnings thereon	**76,267**	17,907
	1,638,711	167,022
Less: billings applicable thereto	**(1,716,610)**	(145,867)
	(77,899)	21,155
Other	**36,194**	—
	$ (41,705)	$ 21,155
Included in the accompanying balance sheet under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	**$ 108,450**	$ 24,277
Billings in excess of costs and estimated earnings on uncompleted contracts	**(150,155)**	(3,122)
	$ (41,705)	$ 21,155

Note 20—Quarterly Financial Data (Unaudited)

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2000				
Sales	$150,808	$172,963	$175,046	$263,838
Gross profit	$ 26,078	$ 28,287	$ 27,656	$ 45,055
Net income from continuing operations	$ 5,820	$ 7,024	$ 7,384	$ 10,155
Basic net income from continuing operations per share	$ .47	$ .46	$ .48	$ .63
Diluted net income from continuing operations per share	$ .44	$ .44	$ .46	$ .60
Fiscal 1999				
Sales	$116,032	$112,660	$125,211	$140,111
Gross profit	$ 20,717	$ 22,385	$ 24,101	$ 26,625
Net income from continuing operations	$ 2,822	$ 4,324	$ 5,225	$ 5,750
Basic net income from continuing operations per share	$ .23	$ .37	$ .45	$ .49
Diluted net income from continuing operations per share	$ .23	$ .36	$ .43	$ .47

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of The Shaw Group Inc.:

We have audited the accompanying consolidated balance sheets of The Shaw Group Inc. (a Louisiana corporation) and subsidiaries as of August 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended August 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Shaw Group Inc. and subsidiaries as of August 31, 2000 and 1999, and the results of their operations and their cash flows for each of the two years in the period ended August 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Arthur Andersen LLP
New Orleans, Louisiana

October 18, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of The Shaw Group Inc.:

We have audited the accompanying consolidated statements of income, shareholders' equity and cash flows of The Shaw Group Inc. (a Louisiana corporation) and subsidiaries for the year ended August 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the operations and cash flows of The Shaw Group Inc. and subsidiaries, for the year ended August 31, 1998, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Arthur Andersen LLP
New Orleans, Louisiana

/s/ Hannis T. Bourgeois, LLP

Hannis T. Bourgeois, LLP
Baton Rouge, Louisiana

October 22, 1998

Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's common stock, no par value (the "Common Stock"), is traded on the New York Stock Exchange (the "NYSE") under the symbol "SGR." The following table sets forth, for the quarterly periods indicated, the high and low sale prices per share for the Common Stock as reported by the NYSE, for the Company's two most recent fiscal years and for the current fiscal year to date.

	High	Low
Fiscal year ended August 31, 1999		
First quarter	$10 5/8	$ 6 13/16
Second quarter	15 7/16	7 5/16
Third quarter	14 9/16	11 9/16
Fourth quarter	21 3/8	12 5/16
Fiscal year ended August 31, 2000		
First quarter	$24	$19
Second quarter	27 15/16	20 1/4
Third quarter	44 15/16	24 5/8
Fourth quarter	55 11/16	37 3/8
Fiscal year ending August 31, 2001		
First quarter (through November 16, 2000)	$93	$54 1/2

The closing sale price of the Common Stock on November 16, 2000, as reported on the NYSE, was $80 per share. As of November 16, 2000, the Company had 86 shareholders of record.

The Company has not paid any dividends on the Common Stock and currently anticipates that, for the foreseeable future, any earnings will be retained for the development of the Company's business. Accordingly, no dividends are expected to be declared or paid on the Common Stock for the foreseeable future. The declaration of dividends is at the discretion of the Company's Board of Directors. The Company's dividend policy will be reviewed by the Board of Directors as may be appropriate in light of relevant factors at the time. The Company is, however, subject to certain prohibitions on the payment of dividends under the terms of existing credit facilities.

On July 12, 2000, the Company issued an aggregate of 43,445 shares of its Common Stock in exchange for certain assets and liabilities of PPM Contractors, Inc. ("PPM"). The Common Stock was issued to the former shareholders of PPM pursuant to Regulation D under the Securities Act of 1933, as amended, and was valued at an aggregate of approximately $2.0 million as of the date of exchange.

Effective July 14, 2000, the Company purchased most of the operating assets of Stone & Webster for $37.6 million in cash, 2,231,773 shares of its Common Stock (valued at approximately $105 million at closing) and the assumption of approximately $685 million of liabilities, subject to adjustment pending the resolution of certain claims arising from the Stone & Webster bankruptcy proceedings. The asset purchase was concluded as part of a proceeding under Chapter 11 of the U.S. Bankruptcy Code. The Common Stock was issued to Stone & Webster and certain of its subsidiaries pursuant to Regulation D under the Securities Act of 1933, as amended.

On November 13, 2000, the Company announced that its Board of Directors had authorized a two-for-one stock split of its Common Stock payable on December 15, 2000, to shareholders of record on December 1, 2000.

DIRECTORS

J. M. BERNHARD, JR.
Chairman of the Board,
President and Chief Executive Officer
The Shaw Group Inc.
Baton Rouge, Louisiana

ALBERT D. McALISTER, ESQ.
Partner
McAlister & McAlister, P.A.
Laurens, South Carolina

L. LANE GRIGSBY
Chairman of the Board
Cajun Constructors, Inc.
Baton Rouge, Louisiana

DAVID W. HOYLE
State Senator, Real Estate Developer
Gastonia, North Carolina

JOHN W. SINDERS, JR.
Managing Director
RBC Dominion Securities Corporation
Houston, Texas

WILLIAM H. GRIGG
Chairman Emeritus
Duke Energy Corporation
Charlotte, North Carolina

EXECUTIVE OFFICERS

J. M. BERNHARD, JR.
Chairman of the Board,
President and Chief Executive Officer

RICHARD F. GILL
Executive Vice President and
Chief Operating Officer

ROBERT L. BELK
Executive Vice President and
Chief Financial Officer

N. ANDREW DUPUY, JR.
Senior Vice President
Construction and Maintenance

MITCHELL A. RAYNER
Senior Vice President
Fabrication and Manufacturing

CORPORATE INFORMATION

Corporate Office
8545 United Plaza Boulevard
Baton Rouge, Louisiana 70809
(225) 932-2500

Investor Relations
Certain shareholder records are maintained at the Company's corporate office in Baton Rouge, Louisiana. Inquiries may be directed to Christine R. Noel, Director of Investor Relations.

Stock Listing
New York Stock Exchange
Symbol: SGR

The Chicago Board Options Exchange
Symbol: SGR

Annual Meeting
The annual meeting of shareholders will be held at 9:00 a.m. on Tuesday, January 16, 2001 at the Radisson Hotel, 4728 Constitution Avenue, Baton Rouge, Louisiana.

Transfer Agent & Registrar
First Union National Bank
Shareholder Services Group
1525 West W. T. Harris Boulevard
Building 3C3
Charlotte, North Carolina 28288-1153
(800) 829-8432

Auditors
Arthur Andersen LLP
201 St. Charles Avenue
Suite 4500
New Orleans, Louisiana 70170-4500

Counsel
Gary P. Graphia
Secretary and General Counsel
The Shaw Group Inc.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. The statements contained in this Annual Report that are not historical facts (including without limitation statements to the effect that The Shaw Group Inc. (the "Company" or "Shaw") or its management "believes," "expects," "anticipates," "plans," or other similar expressions) are forward-looking statements based on the Company's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting the Company will be those anticipated by the Company. These forward-looking statements involve significant risks and uncertainties (some of which are beyond the control of the Company) and assumptions and are subject to change based upon various factors, including but not limited to the following risks and uncertainties: changes in the demand for and market acceptance of the Company's products and services; changes in general economic conditions, and, specifically, changes in the rate of economic growth in the United States and other major international economies; the presence of competitors with greater financial resources and the impact of competitive products, services and pricing; the cyclical nature of the individual markets in which the Company's customers operate; changes in investment by the energy, power and environmental industries; the availability of qualified engineers and other professional staff needed to execute contracts; the uncertain timing of awards and contracts; cost overruns on fixed, maximum or unit priced contracts; changes in trade, monetary and fiscal policies worldwide; currency fluctuations; the effect of the Company's policies, including but not limited to the amount and rate of growth of Company expenses; the continued availability to the Company of adequate funding sources; delays or difficulties in the production, delivery or installation of products and the provision of services; the ability of the Company to successfully integrate the operations of Stone & Webster, Incorporated; the protection and validity of patents and other intellectual property; and various legal, regulatory and litigation risks. Should one or more of these risks or uncertainties materialize, or should any of the Company's assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed discussion of some of the foregoing risks and uncertainties, see the Company's filings with the Securities and Exchange Commission.

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