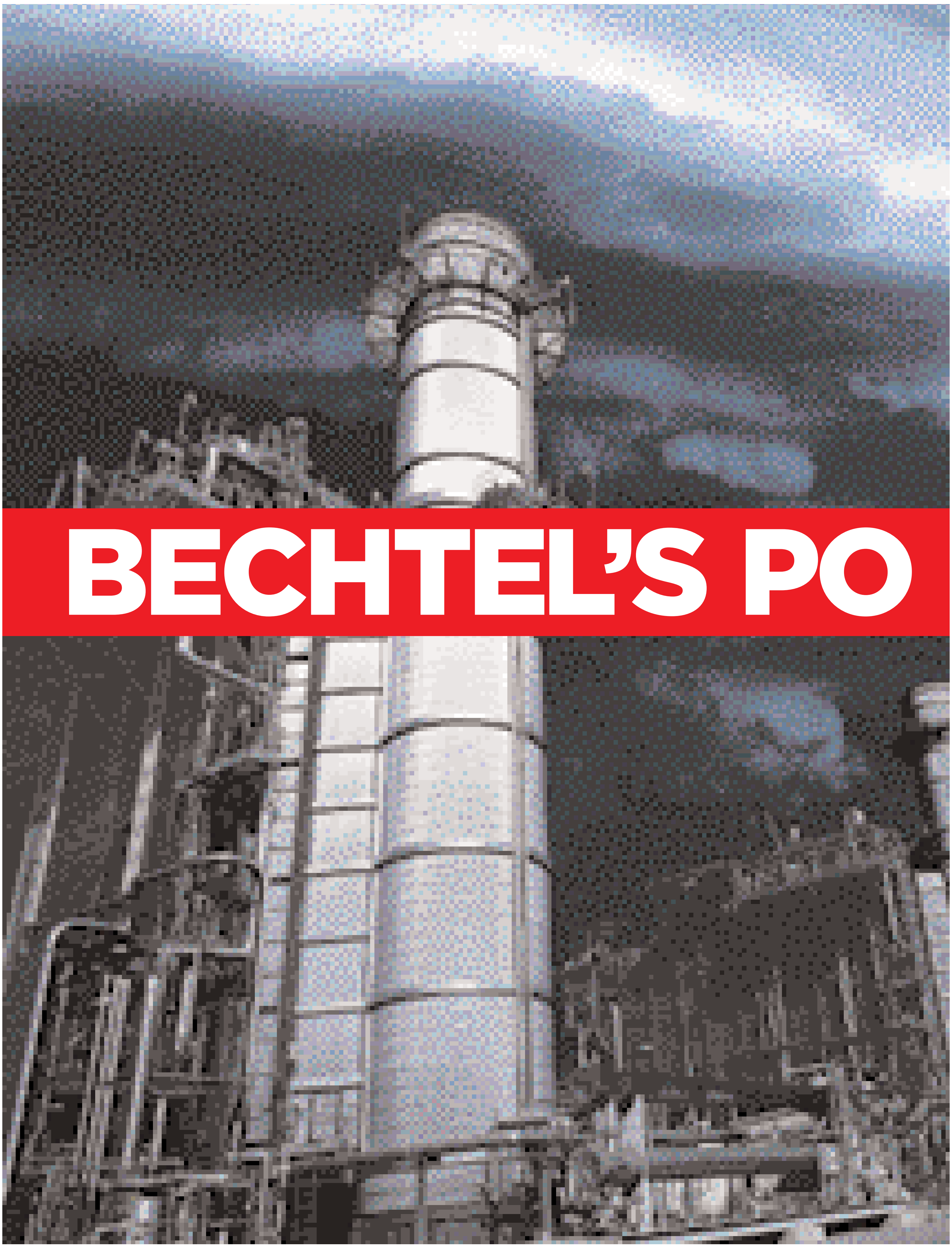
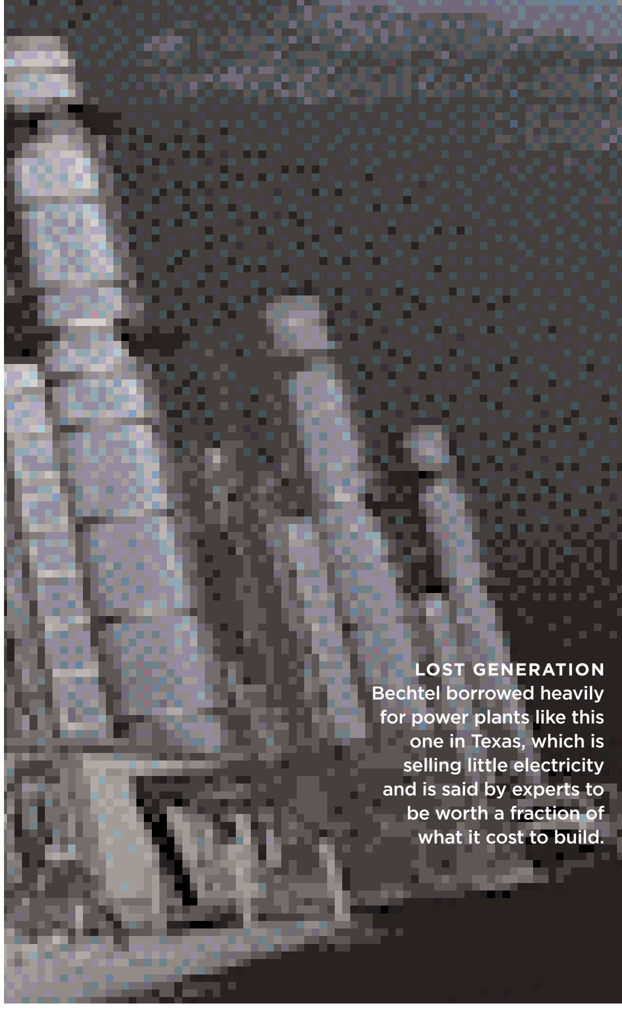

BECHTEL'S PO

EVEN AS IT HELPS REBUILD IRAQ, THE ENGINEERING GIANT IS REELING FROM THE AFTERSHOCKS OF NEW-ECONOMY FOLLIES IT WISHES NO ONE KNEW ABOUT.

BY RALPH KING AND CHARLIE McCOY

WER OUTAGE



LOST GENERATION Bechtel borrowed heavily for power plants like this one in Texas, which is selling little electricity and is said by experts to be worth a fraction of what it cost to build.

PHOTO-ILLUSTRATION BY GEORGE GUINDON

THERE WAS NEVER MUCH question that one of the first companies President Bush and his administration would call on to help with the vital task of rebuilding Iraq would be Bechtel Group.

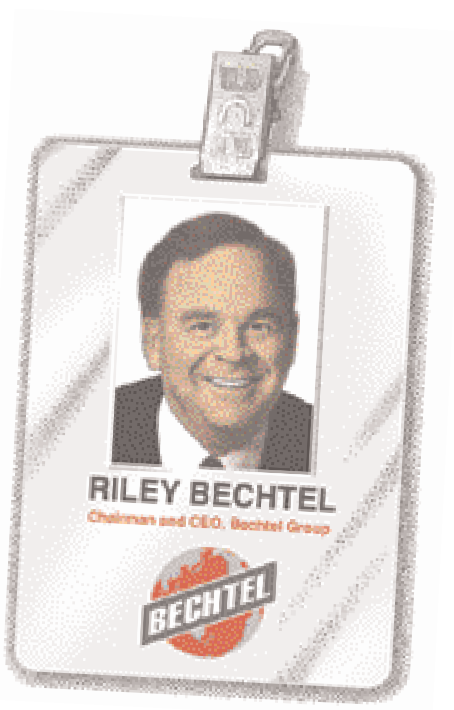
The nation's largest construction and engineering firm, Bechtel has taken on the tough jobs for more than a century. It built Hoover Dam and much of the world's oil and gas infrastructure. It erected entire cities deep in the Saudi desert where little but sand had been before. The world's first commercial nuclear plant, early North Sea oil platforms, the English Channel tunnel, Boston's Big Dig underground freeway project—all were Bechtel jobs. In addition to its engineering prowess, the privately held, family-controlled company is legendary for its discretion, an attribute that often comes in handy on sensitive government jobs. In short, people who know the company should not have been surprised when in January the government awarded Bechtel a $1.8 billion contract—on top of $1.1 billion in work already granted—to become a leading contractor in Iraq.

They might be surprised, however, to learn that back at home, Bechtel is grappling with the fallout from one of the worst financial crises in its 105-year history. They might be positively flabbergasted to learn the cause: One of the most tightly controlled and conservatively managed companies in the world, Bechtel fell head over heels for the same new-economy sirens that created Enron and the dotcom debacle. That this company, too, could have lost its way underscores how truly insane the era of the Internet boom was.

In the late 1990s, Bechtel, under the direction of its fourth-generation family scion, CEO and chairman Riley Bechtel, began pumping nearly $1 billion into a series of disastrously timed investments in everything from e-commerce plays to telecom startups to power plants. The aftershocks, starting in 2002, have been brutal. Bechtel has written off about $200 million invested in busted telecoms and dotcoms, at one point wiping out a third of the company's net worth, according to internal documents and past and present managers (who, like almost all current and former Bechtel employees, spoke only on the condition that they not be identified). In November 2002 the company cut the value of its closely held stock by roughly a quarter, a heavy blow to its tight-knit group of top engineers and managers, who, as partners in the firm, often have most of their personal net worth tied up in Bechtel shares. Compounding its woes, Bechtel carries a heavy debt load, estimated at well over $500 million, tied mainly to its power plants, some of which are worth a fraction of what they cost to build and whose values, electricity market experts say, are destined to fall further. At the end of 2002, the company's net worth stood at only $350 million.

In a memo to family members and their money managers early last year, Riley Bechtel wrote that the company had hit a "financial knothole" and had accumulated "unacceptably high" debt, and detailed some of the wrenching steps proposed in response. Top managers might be called on to put up a total of $50 million in capital from their own pockets. The company intended to suspend the dividend regularly paid out to Bechtel family members and management shareholders, along with their right to cash in shares. In one scenario, the company would cut the 1,100-member staff at its San Francisco headquarters to as few as 50, part of a plan to slash company overhead by as much as 20 percent, internal documents show.

Hundreds of employees, including some of Bechtel's longest-serving and most respected engineers, have been laid off or have left the company. Many of the top managers who remain, Bechtel insiders say, are angry and demoralized, having been blindsided by the bad deals and the devaluation of their shares. According to several former

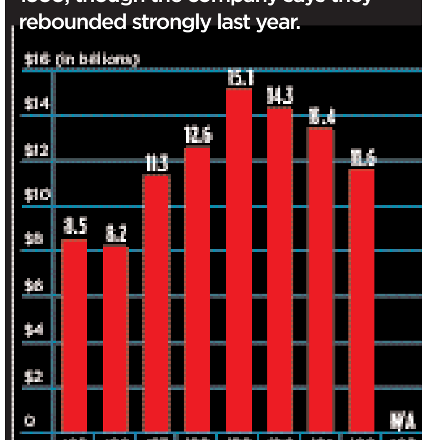


employees, a group of senior managers suggested at one point that Riley Bechtel consider stepping down as CEO. Such a move would have been unthinkable in years past.

Riley Bechtel, 51, remains firmly at the helm, although, in another rare move, the company recently named two seasoned outside executives to its board, which has long consisted almost entirely of family members and insiders. The CEO declined to be interviewed for this article. Jude P. Laspa, an executive vice president, noted in written responses to *Business 2.0* that Bechtel "does not release the details of its financings, investments, financial statements, or share price." He acknowledged that the company's investment arm, Bechtel Enterprises, has taken telecom write-offs, but said its

DECONSTRUCTING BECHTEL

Revenues have fallen 23 percent since 1999, though the company says they rebounded strongly last year.



Source: Bechtel Group

overall portfolio would recover. Laspa said 2003—a year of cost cutting and big Iraq contracts—was strong for the company; he said revenues hit record levels and profits were robust (Bechtel had revenue of $11.6 billion in 2002, down 23 percent since 1999). Laspa wouldn't discuss the company's net worth in the recent past, but said its current net worth is higher than it has been in many years. Bechtel's leadership, he said, is "strong and united," adding that the company is paying its dividend. He said Bechtel currently has no plan to cut headquarters staff to just a few dozen. Still, "with the benefit of hindsight," Laspa said, "it is clear that we, like many others, might have limited the concentration or slowed the pace of Bechtel Enterprises's investment activity in certain sectors."

There's no knowing how the firm's troubles are affecting its crucial work in Iraq, if at all. Unlike some companies, Bechtel will survive its dotcom-era folly; even in the most dire circumstance, the family fortune, estimated at more than $3 billion, would almost surely prevent a collapse. But the strains have opened a rare peephole into the inner workings of one of the world's great industrial empires—at a time when the focus of the entire world is upon it.

LIKE MANY A CLASSIC OF American entrepreneurialism, Bechtel's story begins with one indomitable figure. Warren A. "Dad" Bechtel came to Oklahoma in the 1890s with nothing but a mule team. He picked up work grading railroad beds, and soon headed to California and expanded into general construction. The Hoover Dam project catapulted Bechtel's company into the front ranks of construction firms, and it went on to build much of the infrastructure of the post-World War II boom, particularly in the western United States: roads, mines, refineries, airfields, seaports. It expanded overseas, and got another huge boost when John McCone, a partner in one of Bechtel's early deals, headed the federal Atomic Energy Commission, which arranged for Bechtel to build the world's first privately funded nuclear power plant in 1959. McCone went on to run the Central Intelligence Agency, and Bechtel's ties to him and other government luminaries—such as George Shultz, former U.S. secretary of state

KEITH WITMER (BADGE); PREVIOUS PAGE: SAM BARRICKLOW/WORKBOOK STOCK (CLOUDS) and a onetime Bechtel president and current board member—helped lead to lucrative contracts in the Middle East, Libya, Indonesia, and elsewhere.

Riley Bechtel, Dad's great-grandson, became CEO in 1990, having taken a far more circuitous route to the top than any of his forebears. Though he'd held summer jobs on company construction projects starting as a teenager, Riley studied psychology and political science as an undergraduate, went on to Stanford Law School, and became an attorney at a private San Francisco firm. Family acquaintances say Riley's ambivalence about joining the company pained his father, Stephen D. Bechtel Jr.; of his five children, Steve saw Riley as his most promising potential successor. Finally, in 1981, at age 29, Riley came aboard, starting as a relatively low-level contract coordinator but rising swiftly. He made his mark overseeing some of Bechtel's sprawling petroleum projects in Asia. At a job site in Indonesia, he narrowly escaped injury in an explosion that killed three workers and injured 50 more, an experience that acquaintances say helps explain why workplace safety is a special focus of his reign as CEO.

Friends say he is amiable, hardworking, a no-nonsense manager, and, like all Bechtels, intensely private. Even his detractors allow that he has unquestioned integrity. Some critics say, though, that he is loyal to a fault. They suggest that he sometimes depends too much on a tiny circle of trusted advisers and has little patience for dissent from anyone outside it.

> **"If this were a public company," CEO Riley Bechtel is said to have told his partners last summer, "I probably would have been fired."**

Through the years, all the Bechtel leaders have carefully cultivated the company's image as a deep-pocketed, well-wired member of the global power elite, an image referred to internally as the "mystique." The mystique is a treasured asset, past and present employees say; it helps gain entrée and impress potential clients, especially overseas. Bechtel tends its mystique by nurturing political connections and adhering to a policy of strict secrecy. Even inside the company, information is tightly controlled. Complete financial statements are made available only to a select group of employees, including the roughly 50 "management partners" who own 60 percent of the company's shares. (Riley Bechtel controls the company on behalf of his extended family, which holds the other 40 percent.) Some lenders on projects, former Bechtel executives say, never see the full financial statements of the parent company.

The ownership structure helps prevent information leaks. The partners are a fiendishly hardworking, constantly traveling bunch, most of whom have served the company for decades. Their big reward, often tens of millions of dollars, comes when they retire and cash in their shares at a price set by the company. They also collect annual payouts of profit, just like at a law firm. In good years, partners take home a small fortune. In tough times, they don't—but the importance of sheltering the mystique only grows.

At a partners meeting in November, Adrian Zaccaria, Bechtel's second in command, explained the need for confidentiality and the damage that could result from leaks about the company's recent problems. "Our image and mystique—our brand—will suffer," he said, according to a text of his prepared remarks. "We have a 'license' to do our business because our clients and the financial institutions that support us believe that we are fundamentally a strong and well-managed company." That "license," Zaccaria said, often spares Bechtel from having to post bonds, which are costly, or provide corporate guarantees, which add risk, for its projects. That's a critical advantage over competitors in the cutthroat construction business.

"Seemingly innocent disclosures can have consequences," Zaccaria continued. "Every time we slip ... we increase our exposure, and a simple cocktail party discussion can have implications for us all.… I am not worried about being able to explain or calm our key banks and cus-

AMERICA'S BUILDER

"We'll build anything, anywhere, anytime," Warren A. "Dad" Bechtel used to say. That simple credo, brilliantly executed, has given the company he founded a quiet but powerful role for more than a century. Bechtel started by helping build the railroads that settled the West. It built many of the mines, refineries, dams, and highways that fueled the country's rise from the Depression through World War II and the postwar boom. Many of the nation's most prominent manmade landmarks—Hoover Dam, for instance—were erected by Bechtel. In the wider world, it built Saudi Arabia's oil infrastructure, Indonesia's vast petroleum works, the English Channel tunnel, and thousands of other big infrastructure projects.

Completed: 1936

SAN FRANCISCO–OAKLAND BAY BRIDGE

Cost: $979 million (current dollars)

Completed: 1936

HOOVER DAM

Cost: $2.1 billion (current dollars)

Projected completion: 2005

BOSTON'S BIG DIG

Cost: $14.6 billion

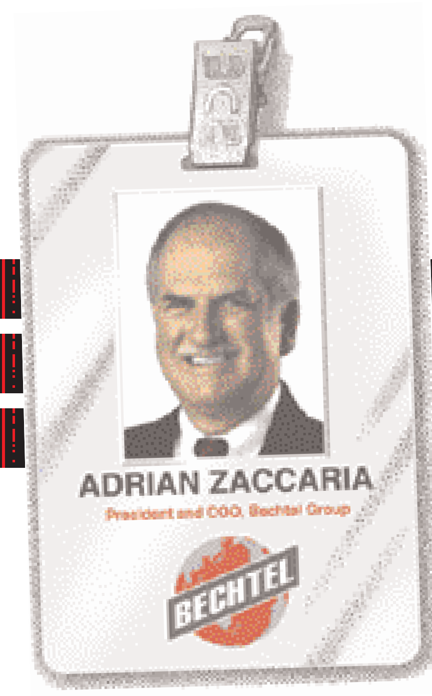
FROM TOP: TIME LIFE PICTURES/GETTY IMAGES; BENJAMIN GLAHA/CORBIS; JESSICA RINALDI/EPA/AP tomers. But I am concerned that our newer and smaller stakeholders will demand more from us." Ironically, Bechtel might be better off today if its key banks *had* demanded more.

Bechtel dreads leaks. "A simple cocktail party discussion can have implications for us all," Zaccaria warned managers last fall.

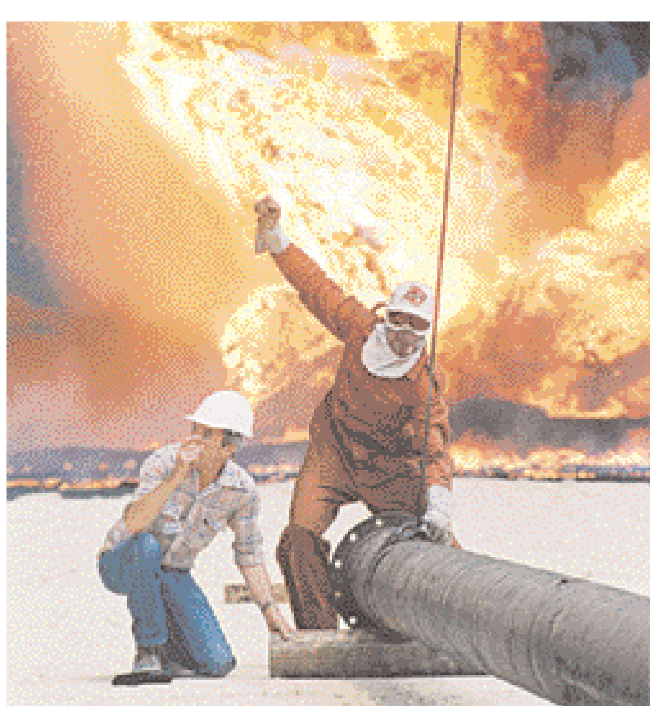
THE ORIGIN OF THE COMPANY'S problems lay in a perfectly reasonable business impulse. Past and present employees say the CEO and top lieutenants saw a need to diversify the company beyond its traditional but ever more competitive construction and engineering work, where profit margins had dwindled to about 3 percent or less, little better than supermarket levels. The solution: Don't just build things. Own them and run them too. Taking an ownership interest in assets like power plants and telecom systems offered potential rewards coming and going. As the preferred bidder on its deals, Bechtel could secure a steady stream of power-plant or fiber-optic-network construction. And as an owner and operator, it could reap ongoing profits once the plants or networks powered up.

Since the late 1980s, Bechtel had dabbled in this game domestically in partnership with Pacific Gas & Electric. By the mid-1990s, it wanted to jump in with both feet and go global. Many countries were privatizing utilities and deregulating power markets, as were some states, notably California, Bechtel's home turf. To grab the opportunities, Bechtel formed a joint venture it called InterGen, and in 1997 sold a 50 percent stake to Royal Dutch/Shell (eventually raised to 68 percent). They were in some ways an odd pair. Shell was 20 times Bechtel's size and wanted gas-fired plants not as prized investments but as customers for its surplus natural gas.

InterGen cut a flurry of deals championed by a rising star at Bechtel, Paul Unruh, an accountant who had spent five years as CFO. Unlike most of the partners, Unruh was not an engineer. But he was a longtime friend of Riley Bechtel's, and the CEO, several past and present employees recall, trusted him completely. Unruh had free rein in running Bechtel Enterprises, the division set up to pursue investments like InterGen. BEn, as it was known inside Bechtel, was a departure for the company in more ways than one: Staffed by MBA hotshots rather than engineers, it occupied offices in a separate building. With its black marble floors and sweeping views of San Francisco Bay, insiders say, it seemed worlds removed from the no-frills cubicle farms inhabited by Bechtel engineers at headquarters.



Between 1995 and early 2002, InterGen signed up to build 20 plants with a capacity of 16,000 megawatts, enough juice to power 16 million homes. Those plants, scattered across the globe, cost more than $10 billion to build. At the time, banks were eager for a piece of the brave new deregulating power business and were happy to lend the company 100 percent of the funds, former InterGen officials say. InterGen wouldn't actually have to pay back any of the debt until a plant fired up, which usually took at least two years. At that point, roughly 25 percent of the debt had to be immediately repaid (that portion of the debt is known as an equity bridge loan). Given the number of plants InterGen envisioned, Bechtel was on the hook for as much as an estimated $700 million that would come due the instant the plants became operational.



FIRED UP Bechtel headed the massive project to douse Kuwait's blazing oil fields after the 1991 Persian Gulf War.

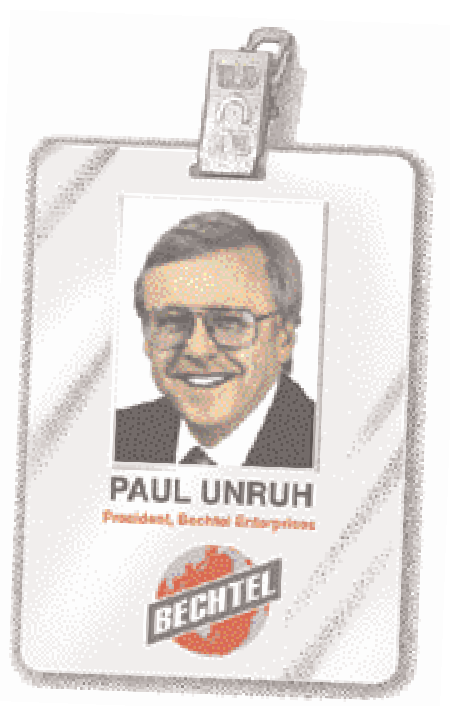
Many a banker familiar with Bechtel's overall balance sheet might have seen that the plan was incredibly risky. That $700 million commitment eclipsed Bechtel's corporate net worth at the time. But in many cases, lenders never saw the parent company's zealously guarded financial data. Some of those who did see it could do so only in a secure room at Bechtel headquarters. They were required to leave any bags and briefcases outside, and were

FROM TOP: KEITH WITMER (BADGE); JOHN GAPS III/AP PHOTOS barred from taking notes or making copies, according to current and former Bechtel officials. But most bankers didn't particularly mind any of that. The projects were financed using the plants themselves as collateral, and perhaps more important, the bankers believed the Bechtel mystique. "The family reputation is very strong," says one former executive. "Some banks understand that, and some don't. We worked with the ones that did."

Even as the power plant program ramped up, BEn's Unruh was hunting for other ventures—and telecom and Internet startups seemed obvious candidates. The Internet boom was off to the races, and after turning a nice profit on the sale of Internet service provider Genuity to GTE in 1997, Unruh invested an estimated $60 million in a dozen dotcoms. They included Concrete Media, a developer of infotainment websites for teenage girls, and InfrastructureWorld.com, an engineering project-management tool. Unruh also poured roughly $140 million into telecoms, including $30 million into a DSL provider called AtLink Networks in Louisville, Colo.

The timing, of course, could hardly have been worse. But Unruh didn't see the Internet collapse coming; few people did. At a company retreat in early 2000, according to attendees, he regaled a crowded conference hall with BEn's plans and offered a striking statistic: The parent company and its roughly 40,000 employees had earned several hundred million dollars for the year. BEn, with a few hundred employees, had seen its portfolio's value rise by $75 million. The implication was that strategic investment, not the gritty construction trade, was the future. As Unruh's talk ended, the hall filled with applause. Recalls one attendee: "He was seen as the Einstein of the place."

Within months the dotcom bubble had popped. Unruh's dotcoms would soon begin to disappear, one by one. Almost all the telecom investments would crater too. AtLink Networks survived for just eight months after BEn backed it.



KEITH WITMER (BADGE)

OVER AT INTERGEN, THE stock market's dive canceled big plans for an IPO. Frequent mishaps caused some power-plant construction under Bechtel's management to fall behind schedule, according to people familiar with the projects. In the United Kingdom, a transformer caught fire and had to be replaced. The turbines developed cracks. Cooling pumps in the Philippines kept failing. BEn had hoped to use the IPO to raise cash for those looming bridge loans, InterGen insiders say. Instead, BEn pushed InterGen to up the ante by striking three related deals totaling $2.1 billion in the red-hot U.S. market, where power rates were soaring. Lenders cheered the fact that the Big Iron plants, as InterGen dubbed the trio, had no contracts for their output; the thinking was that InterGen could sell power at the higher prices everyone was expecting. Unfortunately, many other power companies saw the same opportunity. At one point, dozens of plants were slated for construction in the same markets InterGen planned to invade.

In late 2001, the glutted power market collapsed with breathtaking speed, stranding producers that lacked customers. Electricity rates plunged, natural-gas prices spiked, and the Bush administration's relaxation of environmental laws gave coal-fired plants new life. InterGen and scads of other gas-fired plant owners were hammered.

"There were frantic efforts to sell the business, to find new equity, to pull back," says a former InterGen executive. Finally, rather than take a huge loss, he says, "our goal was to keep it afloat at the lowest possible cost and hang on." Bechtel crews fell further behind—which wasn't all bad since it put off the reckoning on the bridge loans. Even the bankers searched for buyers. "We knew Bechtel was going to feel significant pain if it ever had to fund all those loans," says a former banker familiar with the projects.

Within Bechtel, however, many partners weren't aware of the mounting pressure on BEn. Its deals brought in big construction contracts and turbocharged the stock price. In early 2002, Riley Bechtel rewarded Unruh with a promotion to vice chairman. But soon, past and present managers say, several partners began to sense trouble at BEn. Red flags were popping up everywhere: Enron, a Bechtel partner on a power deal, crumbled. The power market's decline accelerated. Telecoms and dotcoms were blowing up left and right. Nonetheless, Unruh and the BEn team assured everyone that the portfolio was sound. "Someone wasn't telling

WHERE BECHTEL WENT WRONG

The company poured about $1 billion into an Internet boom-era campaign to diversify beyond its ultra-competitive construction and engineering bread and butter. Many of the investments have imploded. Here's a sample of some of Bechtel's most troubled deals.

INVESTMENT	CURRENT STATUS	THE TOLL
TELECOMS		
AtLink Networks, Javelin Connections, Omne Communications, OnFiber Communications, Star21	Only OnFiber survives; it's unprofitable.	$140 million[1]
DOTCOMS		
Bolt, Concrete Media, InfrastructureWorld, MyHomeKey	Most are defunct.	$60 million[2]
POWER PLANTS		
Cottonwood (Texas), Magnolia (Mississippi), Redbud (Oklahoma)	The plants are mostly idle.	$150-$250 million[3]

1) Estimated total telecom-related write-offs to date. 2) Estimated total dotcom-related write-offs to date. 3) Estimated total exposure on these plants.

the partners and the board the whole story," says Dennis Connell, an engineer and a high-ranking partner who resigned in mid-2002.

Tensions within the company rose further when a new CFO, Peter Dawson, was named in the summer of 2002 and took a closer look at BEn. The review took months—and concluded that BEn's assets were significantly overvalued and that debt obligations had ballooned, mainly because of the bridge loans on the power plants. Many partners, particularly some veteran engineers, were furious. "No one on the engineering side would have ever let that stuff get that out of whack. Never," Connell says. "In fact, there was a fear by all of us that we didn't want to be an Enron. We kept saying, 'Get out! Get out!'"

BIG BET ON BIG IRON One of Bechtel's troubled energy sector investments, the Magnolia plant in Ashland, Miss., cost about $570 million to construct.

By late 2002, some of the partners had grown so troubled by the turn of events that they began questioning Riley Bechtel's ability to lead the company. At one point, one of Bechtel's highest-powered partners approached the CEO and suggested that he consider surrendering the post and remaining just as chairman.

Riley Bechtel kept his CEO job, but at the end of 2002, Unruh, after less than a year as vice chairman, resigned. (Unruh declined to comment in any detail. "I spent years telling [outsiders] nothing as CFO, and I'm not going to start now," he said.) By the time of his departure, the company had begun to recognize losses on BEn's assets and launched the painful restructuring campaign. At a partners meeting last summer, Riley Bechtel faced his top troops, many of them still stewing over the BEn debacle and the damage it had done to the firm—and their own personal net worths. "If this were a public company," the CEO told his partners, according to past and present employees, "I probably would've been fired."

> **"There was a fear by all of us that we didn't want to be an Enron," says a former high-ranking Bechtel engineer. "We kept saying, 'Get out! Get out!'"**

TODAY, BECHTEL ENTERPRISes has vacated its plush San Francisco offices, and its operations have been folded into Bechtel's main construction business. In January, Bechtel announced a plan to move hundreds of San Francisco jobs to Maryland. Meanwhile, the BEn losses, which led Bechtel to devalue its stock 27 percent to $5,200 a share, have forced some partners to put off retirement.

InterGen, now a bare-bones plant operator, dwells in a kind of purgatory. Independent power producers, strapped for cash, have put more than 150 plants up for sale worldwide. Two major players, Mirant and PG&E's National Energy Group unit, filed for bankruptcy in July. Big utilities like Duke Energy have taken multibillion-dollar write-offs.

In recent months InterGen has sold stakes in Australian and Turkish plants to raise cash. But there are only a few other attractive plants in its portfolio, power experts and former InterGen officials say. The Big Iron plants, in heavily overbuilt Mississippi, Oklahoma, and Texas, stand mostly idle, say industry experts. They are currently worth a fraction of their replacement value, suggesting that the estimated $150 million to $250 million in equity Bechtel has tied up in them may have to be written off at some point. Billions of dollars of project financing from various international banks, secured by the plants themselves and not guaranteed by Bechtel, are also in jeopardy. Bechtel's InterGen partner, Shell, has taken roughly $400 million in InterGen-related charges to date. Shell has publicly stated its desire to sell its InterGen stake altogether.

As Bechtel faces its problems, it may take heart from the knowledge that it has endured drastic downsizings before. In the mid-1980s, when the bottom fell out of its nuclear business, Bechtel halved its 40,000-member workforce. Diversification saved the day. Buoyed by huge international transportation and military projects, the company regained its momentum within a few years. By the time Riley Bechtel took over as CEO in 1990, it was booming again.

In his letter to family members and their money managers, dated early last year, the CEO said it could take several years to pay down bank debt, and until 2007 or beyond for the company to earn its way out of the hole and to restore its stock price. But it's unclear how much, if at all, his estimate took Iraq into account. The conditions there may be brutal, but the money's good. Though Bechtel will have to pass much of the $1.8 billion awarded under the new contract on to subcontractors, the pact provides a profit margin of as much as 12 percent—much higher than on most Bechtel projects. The government will award $5 billion more in reconstruction contracts in March, and Bechtel is likely to scoop up some of those too. As it stands, Iraq, cost cutting, and the improving economy may have enabled Bechtel to shore up some of its weaknesses—its corporate net worth, for example—more quickly than anticipated.

Still, the trauma of the past few years continues to have profound effects on the company. The mood around headquarters is grim—and wasn't helped in early February when property brokers appeared on the seventh and eighth floors of Bechtel headquarters with tape measures to scope out floor space. Some workers assumed the exercise was a prelude to subleasing and more layoffs. A few weeks ago, many employees were treated to another disturbing sight: A high-ranking Bechtel tax official and an associate were escorted from the building, according to past and present employees. Callers to the office phones of the official and the associate get a message saying they've both taken "personal leave." A Bechtel insider says e-mails to their former company addresses for a time bounced back as undeliverable; later, e-mails to the official began triggering an auto reply referring to personal leave. The company wouldn't comment, and it isn't immediately clear what triggered the episode.

Moreover, the ongoing retrenchment, in the eyes of many Bechtel veterans, is fundamentally changing the nature of the company. When Bechtel prepared to build an $849 million bridge over the Tacoma Narrows in Washington state, it outsourced most of the design work and focused largely on the less creative tasks of construction and project management—a move that some past and present employees saw as a sign of weakness for a famously can-do company. Beyond that, the company still faces the same basic industry issues that led it to the BEn experiment in the first place: Competition and other forces have severely constricted profit margins on the kinds of mammoth projects Bechtel usually takes on. In the long run, it must come up with new ways to boost profits or face stagnation.

And what might all this mean for how well Bechtel performs its pivotal role in Iraq? The company has been criticized by military and coalition officials there; in particular, they've complained that some of Bechtel's efforts to repair Iraq's power grid and schools have been slow or slipshod, and questioned whether cost-consciousness may be to blame. Bechtel defends its work, and in fairness, the security situation in Iraq is so chaotic that the company has at times been forced to halt work and evacuate its employees. But some past and present employees say damaged morale, the pressure to cut costs, and other aftershocks from the BEn problems have affected even the critical work in Iraq. "The cost cutting is across the board," a former longtime manager says. "Everyone is sharing the pain."

The pain extends even to Steve Jr., Riley's father. At 78, he's still revered at Bechtel headquarters, and his 30-year tenure as CEO is remembered by many as a golden era for the company, the turmoil of the mid-1980s notwithstanding. Steve Jr. likes to spend time hunting with his beloved bird dogs. But lately he's been seen more often at Bechtel headquarters, attending more board subcommittee meetings and conferring more frequently with top executives and partners. One recently departed Bechtel veteran has noticed a change in the Bechtel patriarch. "The old boy," the veteran says, "is asking a lot more question these days." ◆

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Some insiders say aftershocks from the problems have affected the critical work in Iraq. Says a former manager: "The cost cutting is across the board."

COMBAT ENGINEER Bechtel has won $2.9 billion in contracts to repair Iraq's power grid, roads, schools, and other infrastructure, but its work has been criticized by some U.S. officials.

THOMAS HARTWELL/USAID