

AECOM TECHNOLOGY CORP  
Form 10-Q  
August 06, 2010  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

---

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-52423**

# AECOM TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**61-1088522**  
(I.R.S. Employer  
Identification Number)

**555 South Flower Street, Suite 3700**  
**Los Angeles, California 90071**

(Address of principal executive office and zip code)

**(213) 593-8000**

(Registrant's telephone number, including area code)

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

As of August 2, 2010, 116,136,722 shares of the registrant's common stock were outstanding.

---

Table of Contents

AECOM TECHNOLOGY CORPORATION

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of June 30, 2010 (unaudited) and September 30, 2009</u>	1
	<u>Consolidated Statements of Income for the Three and Nine Months Ended June 30, 2010 (unaudited) and June 30, 2009 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2010 (unaudited) and June 30, 2009 (unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2010 (unaudited) and June 30, 2009 (unaudited)</u>	4
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4.</u>	<u>Controls and Procedures</u>	26
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	26
<u>Item 1A.</u>	<u>Risk Factors</u>	26
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 6.</u>	<u>Exhibits</u>	33
<u>SIGNATURES</u>		34

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****AECOM Technology Corporation****Consolidated Balance Sheets****(in thousands, except share data)**

	June 30, 2010 (Unaudited)	September 30, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 241,843	\$ 263,489
Cash in consolidated joint ventures	52,039	27,288
Total cash and cash equivalents	293,882	290,777
Accounts receivable net	1,902,633	1,732,959
Prepaid expenses and other current assets	145,241	82,195
Current assets held for sale		74,527
Deferred tax assets net	36,189	34,077
<b>TOTAL CURRENT ASSETS</b>	<b>2,377,945</b>	<b>2,214,535</b>
<b>PROPERTY AND EQUIPMENT NET</b>	<b>226,143</b>	<b>228,835</b>
<b>DEFERRED TAX ASSETS NET</b>	<b>92,805</b>	<b>91,139</b>
<b>INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES</b>	<b>33,194</b>	<b>34,505</b>
<b>GOODWILL</b>	<b>1,148,629</b>	<b>1,062,919</b>
<b>INTANGIBLE ASSETS NET</b>	<b>62,514</b>	<b>61,979</b>
<b>OTHER NON-CURRENT ASSETS</b>	<b>58,610</b>	<b>95,969</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,999,840</b>	<b>\$ 3,789,881</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term debt	\$ 5,589	\$ 13,268
Accounts payable	397,920	401,239
Accrued expenses and other current liabilities	806,881	722,531
Billings in excess of costs on uncompleted contracts	343,828	333,952
Income taxes payable	2,703	19,585
Current liabilities held for sale		50,325
Current portion of long-term debt	9,562	15,839
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,566,483</b>	<b>1,556,739</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>244,118</b>	<b>336,635</b>
<b>LONG-TERM DEBT</b>	<b>173,640</b>	<b>142,102</b>
<b>TOTAL LIABILITIES</b>	<b>1,984,241</b>	<b>2,035,476</b>
<b>AECOM STOCKHOLDERS EQUITY:</b>		
Convertible preferred stock authorized, 2,500,000; issued and outstanding, 24,405 and 25,130 shares as of June 30, 2010 and September 30, 2009, respectively;		
\$100.00 liquidation preference value	2,441	2,513
Common stock authorized, 150,000,000 shares of \$0.01 par value; issued and outstanding, 113,777,608 and 110,890,075 shares as of June 30, 2010 and	1,138	1,109

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

September 30, 2009, respectively

Preferred stock, Class C authorized, 200 shares; issued and outstanding, 52 and 56 shares as of June 30, 2010 and September 30, 2009, respectively; no par value, \$1.00 liquidation preference value

Preferred stock, Class E authorized, 20 shares; issued and outstanding, 4 and 5 shares as of June 30, 2010 and September 30, 2009, respectively; no par value, \$1.00 liquidation preference value

Additional paid-in capital	1,540,359	1,458,326
Accumulated other comprehensive loss	(156,599)	(146,575)
Retained earnings	583,355	414,345
TOTAL AECOM STOCKHOLDERS EQUITY	1,970,694	1,729,718
Noncontrolling interests	44,905	24,687
TOTAL STOCKHOLDERS EQUITY	2,015,599	1,754,405
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,999,840	\$ 3,789,881

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**AECOM Technology Corporation****Consolidated Statements of Income****(unaudited - in thousands, except per share data)**

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue	\$ 1,635,183	\$ 1,541,289	\$ 4,717,133	\$ 4,491,975
Cost of revenue	1,520,118	1,453,772	4,411,196	4,235,918
Gross profit	115,065	87,517	305,937	256,057
Equity in earnings of joint ventures	5,941	6,153	13,770	16,793
General and administrative expenses	28,327	20,071	78,090	61,248
Income from operations	92,679	73,599	241,617	211,602
Other income (expense)	(253)	3,248	3,280	(2,958)
Interest expense, net	(1,126)	(2,617)	(4,486)	(8,134)
Income from continuing operations before income tax expense	91,300	74,230	240,411	200,510
Income tax expense	22,665	21,187	60,178	57,078
Income from continuing operations	68,635	53,043	180,233	143,432
Discontinued operations, net of tax		1,118	(77)	2,810
Net income	68,635	54,161	180,156	146,242
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(3,793)	(3,040)	(11,043)	(10,818)
Net income attributable to AECOM	\$ 64,842	\$ 51,121	\$ 169,113	\$ 135,424
Net income allocation:				
Preferred stock dividend	\$ 34	\$ 34	\$ 104	\$ 105
Net income available for common stockholders	64,808	51,087	169,009	135,319
Net income attributable to AECOM	\$ 64,842	\$ 51,121	\$ 169,113	\$ 135,424
Net income attributable to AECOM per share:				
Basic				
Continuing operations	\$ 0.57	\$ 0.45	\$ 1.49	\$ 1.24
Discontinued operations		0.01	(0.01)	0.03
	\$ 0.57	\$ 0.46	\$ 1.48	\$ 1.27
Diluted				
Continuing operations	\$ 0.56	\$ 0.45	\$ 1.47	\$ 1.22
Discontinued operations		0.01		0.03
	\$ 0.56	\$ 0.46	\$ 1.47	\$ 1.25
Weighted average shares outstanding:				
Basic	114,539	109,872	113,831	106,955
Diluted	115,620	111,515	115,054	108,761

See accompanying Notes to Consolidated Financial Statements.





Table of Contents**AECOM Technology Corporation****Consolidated Statements of Comprehensive Income****(unaudited in thousands)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Net income	\$ 68,635	\$ 54,161	\$ 180,156	\$ 146,242
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(29,516)	32,679	(12,511)	(18,159)
Swap valuation	229	355	988	(1,282)
Pension adjustments	597	(118)	1,499	1,495
Comprehensive income, net of tax	39,945	87,077	170,132	128,296
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax	(3,793)	(3,040)	(11,043)	(10,818)
Comprehensive income attributable to AECOM, net of tax	\$ 36,152	\$ 84,037	\$ 159,089	\$ 117,478

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**AECOM Technology Corporation****Condensed Consolidated Statements of Cash Flows****(unaudited - in thousands)**

	<b>Nine Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 180,156	\$ 146,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57,745	60,787
Equity in earnings of unconsolidated joint ventures	(13,770)	(16,793)
Distribution of earnings from unconsolidated joint ventures	7,827	11,220
Non-cash stock compensation	25,137	19,214
Excess tax benefit from share based payment	(16,713)	(13,994)
Foreign currency translation	(3,838)	(1,420)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(106,685)	(39,088)
Prepaid expenses and other assets	(18,275)	(10,219)
Accounts payable	(20,119)	(44,064)
Accrued expenses and other current liabilities	(21,375)	(60,637)
Billings in excess of costs on uncompleted contracts	(10,324)	54,177
Other long-term liabilities	(3,764)	6,423
Income taxes payable	(8,026)	(4,696)
Net cash provided by operating activities from continuing operations	47,976	107,152
Net cash (used in) provided by operating activities from discontinued operations	(4,227)	714
Net cash provided by operating activities	43,749	107,866
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for business acquisitions, net of cash acquired	(70,000)	(27,132)
Proceeds from disposal of business	25,799	
Net investment in unconsolidated joint ventures	5,988	853
Sales of investment securities		81,449
Payments for capital expenditures	(35,178)	(36,787)
Net cash (used in) provided by investing activities	(73,391)	18,383
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings under credit agreements	34,674	1,073
Repayments of borrowings under credit agreements	(18,991)	(163,994)
Proceeds from issuance of common stock	3,316	99,883
Proceeds from exercise of stock options	9,753	14,078
Payments to repurchase common stock	(12,330)	(3,904)
Excess tax benefit from share based payment	16,713	13,994
Net contributions from (distributions to) noncontrolling interests	4,375	(3,393)
Net cash provided by (used in) financing activities	37,510	(42,263)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4,763)	(2,902)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,105	81,084
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	290,777	197,122
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 293,882	\$ 278,206
<b>NON-CASH INVESTING AND FINANCING ACTIVITY</b>		

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Common stock issued in acquisitions	\$	34,800	\$	12,446
-------------------------------------	----	--------	----	--------

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

**AECOM Technology Corporation**

**Notes to Consolidated Financial Statements**

**(unaudited)**

**1. Basis of Presentation**

The accompanying consolidated financial statements of AECOM Technology Corporation (the Company) are unaudited and, in the opinion of management, include all adjustments necessary for a fair statement of the Company's financial position and results of operations for the periods presented. All inter-company balances and transactions are eliminated in consolidation.

The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2009. The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The results of operations for the nine months ended June 30, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2010.

The Company reports its annual results of operations based on 52 or 53-week periods ending on the Friday nearest September 30. The Company reports its quarterly results of operations based on periods ending on the Friday nearest December 31, March 31, and June 30. For clarity of presentation, all periods are presented as if the periods ended on September 30, December 31, March 31, and June 30.

The Company's cash equivalents include highly liquid investments which have initial maturities of three months or less.

**2. Adoption of Changes in Accounting Principles**

In December 2007, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 810-10, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (ASC 810-10). ASC 810-10 requires all entities to report noncontrolling interests in subsidiaries as a separate component of equity in the consolidated balance sheet and to reflect net income attributable to noncontrolling interests below net income on the consolidated statement of income. The Company adopted ASC 810-10 during the first quarter ended December 31, 2009. Accordingly, prior periods have been restated to reflect these reclassifications.

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

In December 2007, the FASB issued ASC 805-10, *Business Combinations* (ASC 805-10). ASC 805-10 significantly changes the way companies account for business combinations and generally requires more assets acquired and liabilities assumed to be measured at their acquisition-date fair value. Under ASC 805-10, legal fees and other transaction-related costs are expensed as incurred and are no longer included as a cost of acquiring the business. ASC 805-10 also requires, among other things, acquirers to estimate the acquisition-date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. In addition, restructuring costs the acquirer expects, but is not obligated to incur, must be recognized separately from the business acquisition. This pronouncement has been applied by the Company to all acquisitions consummated on or after October 1, 2009. Transaction and restructuring costs expensed as a result of the adoption of ASC 805-10 were not material.

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09 *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). ASU 2010-09 removes the requirement for a United States Securities and Exchange Commission (SEC) registrant to disclose a date, in both issued and revised financial statements, through which that filer had evaluated subsequent events. Accordingly, the Company removed the related disclosure from the Notes to Consolidated Financial Statements. Consistent with past practice, the Company has evaluated subsequent events through the issuance date of our financial statements. The adoption did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-06 *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amended certain provisions of ASC 820-10, *Fair Value Measurement and Disclosures* (ASC 820-10) by requiring additional disclosures for transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring fair value measurement disclosures for each class of assets and liabilities in addition to disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The adoption did not have a material impact on the Company's financial statements or disclosures, as the Company did not have any transfers between Level 1 and Level 2 fair value measurements and did

Table of Contents

not have material classes of assets and liabilities that required additional disclosure. Certain provisions of ASU 2010-06 are effective for the Company for the fiscal year beginning October 1, 2011. These provisions will require the Company to present separately information on all purchases, sales, issuances, and settlements of financial instruments valued using significant unobservable inputs (Level 3) in the reconciliation for fair value measurements. The Company does not believe the adoption in its fiscal year beginning October 1, 2011 will have a material impact on its financial statements or disclosures.

**3. Recently Issued Accounting Pronouncements**

In October 2009, the FASB issued ASU No. 2009-13 *Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which updates ASC Topic 605, *Revenue Recognition*. ASU 2009-13 provides another alternative for determining the selling price of deliverables and will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and could result in earlier revenue recognition. ASU 2009-13 is effective for the Company prospectively for revenue arrangements entered into or materially modified on or after October 1, 2010; however, early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2009-13 on its financial statements.

In December 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 amends prior accounting for variable interests and requires a company to perform an analysis to determine whether its interests give it a controlling financial interest in a variable interest entity. A company must also assess whether it has the power to direct the activities of the variable interest entity and whether it has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. ASU 2009-17 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and expands required disclosures. ASU 2009-17 may be applied retrospectively in previously issued financial statements with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. ASU 2009-17 is effective for the Company's fiscal year beginning October 1, 2010. The Company is currently evaluating the impact that the adoption of ASU 2009-17 will have on its financial statements.

In December 2008, the FASB issued ASC 715-20-65, *Employers' Disclosures about Postretirement Benefit Plan Assets* (ASC 715-20-65). ASC 715-20-65 amends SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional disclosure requirements include expanded disclosure about an entity's investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. This standard is effective for the Company in its fiscal year ending September 30, 2010. The Company will amend its disclosures accordingly beginning with the financial statements included in its fiscal year 2010 Form 10-K.

**4. Business Acquisitions, Goodwill and Intangible Assets**

Business acquisitions completed during the three and nine months ended June 30, 2010 were immaterial both individually and in the aggregate based on the Company's consolidated assets, investments and net income. Additionally, the Company acquired control of an entity and commenced consolidating it during the quarter ended December 31, 2009. This consolidation did not have a material impact to the Company's financial statements. Total consideration related to acquisitions consisted of \$70.0 million in cash, net of cash acquired, and \$34.8 million in Company stock. The Company is in the process of finalizing project related liabilities related to recent acquisitions.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

The changes in the carrying value of goodwill by reporting segment for the nine months ended June 30, 2010 and 2009 were as follows:

	September 30, 2009	Post- Acquisition Adjustments	Foreign Exchange Impact (in thousands)	Acquired	June 30, 2010
Professional Technical Services	\$ 1,060,093	\$ (2,027)	\$ (3,555)	\$ 69,373	\$ 1,123,884
Management Support Services	2,826			21,919	24,745
Total	\$ 1,062,919	\$ (2,027)	\$ (3,555)	\$ 91,292	\$ 1,148,629

	September 30, 2008	Post- Acquisition Adjustments	Foreign Exchange Impact (in thousands)	Acquired	June 30, 2009
Professional Technical Services	\$ 946,263	\$ 80,647	\$ (7,528)	\$ 22,547	\$ 1,041,929
Management Support Services	2,826				2,826
Total	\$ 949,089	\$ 80,647	\$ (7,528)	\$ 22,547	\$ 1,044,755

Table of Contents

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of June 30, 2010 and September 30, 2009, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	June 30, 2010		September 30, 2009			
	Gross Amount	Accumulated Amortization	Intangible Assets, Net	Gross Amount	Accumulated Amortization	Intangible Assets, Net
	(in thousands)					
Backlog	\$ 67,626	\$ (63,344)	\$ 4,282	\$ 63,137	\$ (55,021)	\$ 8,116
Customer relationships	80,566	(22,334)	58,232	69,999	(16,136)	53,863
Total	\$ 148,192	\$ (85,678)	\$ 62,514	\$ 133,136	\$ (71,157)	\$ 61,979

At the time of acquisition, the Company preliminarily estimates the amount of the identifiable intangible assets acquired based upon historical valuations of similar acquisitions and the facts and circumstances available at the time. The Company determines the final value of the identifiable intangible assets as soon as information is available, but not more than 12 months from the date of acquisition. The Company is in the process of completing the final valuation of intangible assets for one of its business acquisitions.

The following table presents estimated amortization expense of existing intangible assets for the remainder of fiscal 2010 and for the succeeding years:

Fiscal Year	(in thousands)
2010	\$ 3,231
2011	11,167
2012	8,575
2013	8,491
2014	8,346
Thereafter	22,704
Total	\$ 62,514

## 5. Restructuring Costs

In fiscal 2009, in connection with the Earth Tech acquisition, the Company initiated plans for workforce reductions and facility closures. During the quarter ended December 31, 2009, the Company initiated a restructuring plan for its United Kingdom operations to reduce ongoing overhead costs and improve operating efficiencies. The accrued restructuring costs are expected to be paid over the next five years.

The following table presents a reconciliation of the restructuring reserve balance in our Professional Technical Services Segment from October 1, 2009 to June 30, 2010:

Nine Months Ended June 30, 2010

Total



Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

	Severance Costs		Facility Costs (in millions)			
Accrual, beginning of the period	\$	1.7	\$	26.3	\$	28.0
Accrued and other adjustments during the period		5.1		0.6		5.7
Paid during the period		(5.3)		(8.9)		(14.2)
Accrual, end of the period	\$	1.5	\$	18.0	\$	19.5

**6. Accounts Receivable Net**

Net accounts receivable consisted of the following as of June 30, 2010 and September 30, 2009:

	June 30, 2010		September 30, 2009	
	(in thousands)			
Billed	\$	1,088,379	\$	992,444
Unbilled		857,627		785,783
Contract retentions		56,026		55,203
Total accounts receivable gross		2,002,032		1,833,430
Allowance for doubtful accounts		(99,399)		(100,471)
Total accounts receivable net	\$	1,902,633	\$	1,732,959

Table of Contents

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of June 30, 2010 and September 30, 2009 are expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding for several months or years.

Allowances for doubtful accounts have been determined through specific identification of amounts considered to be uncollectible and potential write-offs, plus an allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience.

Other than the U.S. government, no single client accounted for more than 10% of the Company's accounts receivable as of June 30, 2010 or September 30, 2009.

## 7. Disclosures About Pension Benefit Obligations

The following table details the components of net periodic benefit cost for the Company's pension plans for the three and nine months ended June 30, 2010 and 2009:

	Three Months Ended				Nine Months Ended			
	June 30, 2010		June 30, 2009		June 30, 2010		June 30, 2009	
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
	(in thousands)							
Components of net periodic (benefit) cost:								
Service costs	\$	\$ 942	\$ 462	\$ 1,106	\$	\$ 3,564	\$ 1,386	\$ 3,220
Interest cost on projected benefit obligation	2,011	5,136	2,154	5,405	6,032	15,946	6,461	15,848
Expected return on plan assets	(1,996)	(5,675)	(1,959)	(5,631)	(5,987)	(17,713)	(5,878)	(16,503)
Amortization of prior service costs		(75)	(209)	(78)		(236)	(628)	(230)
Amortization of net loss	341	562	608	807	1,023	1,758	1,825	2,363
Curtailment gain recognized					(1,933)			
Net periodic (benefit) cost	\$ 356	\$ 890	\$ 1,056	\$ 1,609	\$ (865)	\$ 3,319	\$ 3,166	\$ 4,698

The total amounts of employer contributions paid for the nine months ended June 30, 2010 were \$5.6 million for U.S. plans and \$11.9 million for non-U.S. plans. The expected remaining scheduled employer contributions for the fiscal year ending September 30, 2010 are \$0.6 million for U.S. plans and \$3.6 million for non-U.S. plans. During the quarter ended December 31, 2009, the Company adopted an amendment to freeze pension plan benefit accruals for certain U.S. employee plans resulting in a curtailment gain of \$1.9 million. Included in other long-term liabilities are net pension liabilities of \$115.0 million and \$132.5 million as of June 30, 2010 and September 30, 2009, respectively.

**8. Fair Value Measurements**

In September 2006, the FASB issued ASC 820-10, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. ASC 820-10 was effective for the Company on October 1, 2008 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in its consolidated financial statements on a recurring basis (at least annually).

Effective October 1, 2009, the Company adopted the fair value measurement guidance for all nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. These assets and liabilities include items such as goodwill and long lived assets that are measured at fair value resulting from impairment, if deemed necessary. For additional information about the Company's impairment evaluation process, refer to Note 1 to the Consolidated Financial Statements in the Company's 2009 Form 10-K. During the third quarter ended June 30, 2010, the Company did not record any fair market value adjustments to those financial and nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Table of Contents

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis (at least annually) in millions:

	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred compensation plan assets (1)	\$	\$	\$	\$
Total assets	\$	\$	\$	\$
Deferred compensation plan liability (1)	\$	84.3	\$	84.3
Derivative liabilities (2)		0.2		0.2
Total liabilities	\$	84.5	\$	84.5

	September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred compensation plan assets (1)	\$	0.6	\$	\$
Total assets	\$	0.6	\$	\$
Deferred compensation plan liability (1)	\$	92.8	\$	92.8
Derivative liabilities (2)		1.9		1.9
Total liabilities	\$	94.7	\$	94.7

- (1) The Company maintains a participant-directed, non-qualified deferred compensation plan structured as a rabbi trust (a trust established to provide a source of funds for the plan on a tax-deferred basis) for eligible highly compensated employees. As of June 30, 2010 and September 30, 2009, the rabbi trust held approximately \$0.0 million (0% of its investment assets) and \$0.6 million (1% of its investment assets) in marketable securities, respectively. Such marketable securities are valued using quoted market prices. The remaining assets, not reflected in this table, of \$62.4 million and \$53.7 million, respectively, are valued at cash surrender value and not subject to this disclosure. The related deferred compensation liability represents the fair value of the participant deferrals, which are held in insurance funds that are not publicly traded. These investments are valued at the net asset value per share provided by the Company's administrator multiplied by the number of shares held by the participants. For additional information about the Company's deferred compensation plan, refer to Note 17 to Consolidated Financial Statements in the Company's 2009 Form 10-K and Note 12 herein.
- (2) For additional information about the Company's fair value measurements of these interest rate swap agreements, refer to Notes 1 and 11 to Consolidated Financial Statements in the Company's 2009 Form 10-K.

## 9. Stock-Based Compensation

The fair value of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The expected term of awards granted represents the period of time the awards are expected to be outstanding. As the Company's common stock has only been publicly-traded since May 2007, expected volatility was based on a historical volatility, for a period consistent with the expected option term, of publicly-traded peer companies. The risk-free interest rate is based on U.S. Treasury bond rates with maturities equal to the expected term of the option on the grant date. The Company uses historical data as a basis to estimate the probability of forfeitures.

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

The fair value of options granted during the three and nine months ended June 30, 2010 and 2009 were determined using the following weighted average assumptions:

	<b>Three and Nine Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Dividend yield		
Expected volatility	39.9%	37.6%
Risk-free interest rate	1.6%	1.8%
Term (in years)	4.5	4.5

Table of Contents

For the nine months ended June 30, 2010 and 2009, compensation expense recognized related to stock options was \$2.9 million and \$3.1 million, respectively. Unrecognized compensation expense relating to stock options outstanding as of June 30, 2010 and September 30, 2009 was \$5.8 million and \$6.8 million, respectively, to be recognized over the awards' respective vesting periods, which are generally three years.

Stock option activity for the nine months ended June 30, 2010 and 2009 was as follows:

	2010		2009	
	Shares of stock under options (in thousands)	Weighted average exercise price	Shares of stock under options (in thousands)	Weighted average exercise price
Outstanding at the beginning of the period	3,806	\$ 16.36	5,309	\$ 11.78
Options granted	376	24.93	885	23.68
Options exercised	(937)	10.58	(1,682)	8.75
Options forfeited or expired	(46)	22.19	(40)	21.32
Outstanding at the end of the period	3,199	18.97	4,472	15.19
Vested and expected to vest in the future as of June 30	3,108	\$ 18.80	4,409	\$ 14.98

The weighted average grant-date fair value of stock options granted during the nine months ended June 30, 2010 and 2009 was \$8.77 and \$8.04, respectively.

The Company grants restricted stock units under the Performance Earnings Program (PEP), whereby units are earned and issued dependent upon meeting established cumulative performance objectives and service conditions over a three-year period. The Company recognized compensation expense relating to the PEP of \$16.2 million and \$14.1 million during the nine months ended June 30, 2010 and 2009, respectively. Additionally, the Company issues restricted stock units which are earned based only on service conditions, resulting in compensation expense of \$5.6 million and \$1.1 million during the nine months ended June 30, 2010 and 2009, respectively. Unrecognized compensation expense related to PEP units and restricted stock units outstanding was \$22.7 million and \$15.4 million as of June 30, 2010 and \$21.2 million and \$3.9 million as of September 30, 2009, respectively, to be recognized over the awards' respective vesting periods which are generally three years.

Cash flows attributable to tax benefits resulting from tax deductions in excess of compensation cost recognized for share-based payments is classified as financing cash flows. Excess tax benefits of \$16.7 million and \$14.0 million for the nine months ended June 30, 2010 and 2009, respectively, have been classified as financing cash inflows in the unaudited Consolidated Statements of Cash Flows.

## 10. Income Taxes

The effective tax rate for the nine months ended June 30, 2010 and June 30, 2009 was 25.0% and 28.5%, respectively. The decrease in the 2010 tax rate is primarily due to the discrete recognition of tax benefits considered effectively settled as a result of the Company's receipt of a signed

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

examination report from the Internal Revenue Service related to audit years 2006 and 2007, as well as, tax benefits associated with the restructuring of our Australian operations and remeasurement of uncertain tax positions relating to the Canadian Scientific Research and Experimental Development tax credit. Additionally, approximately 50% of the Company's operations are conducted in jurisdictions with a tax rate lower than the U. S. statutory tax rate of 35%.

It is reasonably possible that during the next twelve months the Company will conclude certain tax examinations, including the Internal Revenue Service audit of years 2006 and 2007, and, as a result, settle certain income tax positions for amounts which differ from those accrued as uncertain tax positions.

### **11. Net Income Per Share**

Basic net income per share (EPS) excludes dilution and is computed by dividing net income available for common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income attributable to AECOM by the weighted average number of common shares outstanding and dilutive potential common shares for the period. The Company includes as potential common shares the weighted average dilutive effects of outstanding stock options using the treasury stock method.

Table of Contents

The following table sets forth a reconciliation of the denominators for basic and diluted EPS:

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in thousands)			
Denominator for basic earnings per share	114,539	109,872	113,831	106,955
Potential common shares:				
Stock options	698	1,561	927	1,701
Other	383	82	296	105
Denominator for diluted earnings per share	115,620	111,515	115,054	108,761

For the nine months ended June 30, 2010 and 2009, no options were excluded from the calculation of potential common shares because they were considered anti-dilutive.

**12. Other Financial Information**

Accrued expenses consist of the following:

	June 30, 2010	September 30, 2009
	(in millions)	
Accrued salaries and benefits	\$ 333.0	\$ 323.3
Accrued contract costs	336.8	358.2
Deferred compensation plan liability (Note 8)	84.3	
Other	52.8	41.0
	\$ 806.9	\$ 722.5

Accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees. Accrued contract costs also include balances related to professional liability risks of \$107.7 million and \$98.3 million as of June 30, 2010 and September 30, 2009, respectively.

Other long-term liabilities consist of the following:

	June 30, 2010	September 30, 2009
	(in millions)	
Pension liabilities (Note 7)	\$ 115.0	\$ 132.5
Deferred compensation plan liability (Note 8)		92.8
Reserve for uncertain tax positions (Note 10)	65.7	54.4



Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Other		63.4		56.9
	\$	244.1	\$	336.6

The components of accumulated other comprehensive loss are as follows:

	June 30, 2010	September 30, 2009
	(in millions)	
Foreign currency translation adjustment	\$ (50.2)	\$ (37.7)
Defined benefit minimum pension liability adjustment, net of tax	(106.3)	(107.8)
Interest rate swap valuation	(0.1)	(1.1)
	\$ (156.6)	\$ (146.6)

The Company elected to terminate its U.S. deferred compensation plan effective in December 2009. As a result of the termination, 6.3 million outstanding restricted stock units and the Company's deferred compensation liability of \$84.3 million as of June 30, 2010 are expected to be settled in December 2010. Accordingly, this liability was reclassified from other long-term liabilities to accrued expenses and other current liabilities in December 2009. Additionally, \$62.2 million in investments held in a rabbi trust to fund the deferred compensation liability were reclassified from other non-current assets to other current assets in December 2009. The 6.3 million outstanding stock units can only be settled in common stock of the Company and, as such, remain classified in AECOM's stockholder equity as of June 30, 2010.

Table of Contents

**13. Commitments and Contingencies**

The Company records amounts representing its estimated liabilities relating to claims, guarantees, litigation, audits and investigations. The Company relies in part on qualified actuaries to assist it in determining the level of reserves to establish for insurance-related claims that are known and have been asserted against it, and for insurance-related claims that are believed to have been incurred based on actuarial analysis, but have not yet been reported to the Company's claims administrators as of the respective balance sheet dates. The Company includes any adjustments to such insurance reserves in its consolidated results of operations.

The Company is a defendant in various lawsuits arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on its consolidated balance sheet or statements of income or cash flows.

In some instances, the Company guarantees that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards. At June 30, 2010, the Company was contingently liable in the amount of approximately \$167.0 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for payment and performance guarantees.

In the ordinary course of business, the Company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties. Generally, under joint venture arrangements, if a partner is financially unable to complete its share of the contract, the other partner(s) will be required to complete those activities. The Company generally only enters into joint venture arrangements with partners who are reputable, financially sound and who carry appropriate levels of surety bonds for the project in order to adequately assure completion of their assignments. The Company does not expect that these guarantees will have a material adverse effect on its consolidated balance sheet or statements of income or cash flows.

***Combat Support Associates Joint Venture - Kuwait Labor Law Matter***

On March 24, 2010, the U.S. Defense Contract Audit Agency (DCAA) issued a DCAA Form 1 questioning costs incurred during fiscal year 2007 by Combat Support Associates (CSA), a consolidated joint venture that includes AECOM Government Services, Inc. (AGS), in the performance of a U.S. Government contract in Kuwait. The costs in question were incurred in paying Service Terminal Indemnity (STI) to CSA's employees at the end of their employment agreements. The DCAA questioned the reasonableness and allowability of the payments on the basis that CSA allegedly paid more than the amount required by the Kuwait Labor Law.

CSA has requested that the U.S. Government contracting officer make a final determination that the costs are proper under the contract. If the contracting officer declines to overrule the DCAA Form 1, CSA intends to utilize all proper avenues to defend against the Government's claim, including appeals processes.

The Company believes that CSA has been and continues to be in compliance with STI requirements of Kuwait labor laws and has received a letter from Kuwaiti legal counsel supporting its position. Therefore, the Company presently believes that, if required, CSA would be successful in obtaining a favorable determination of this matter. However, if the DCAA Form 1 is not overruled and subsequent appeals were unsuccessful, the decision could have a material adverse effect on the Company's results of operations.

#### **14. Reportable Segments**

The Company's operations are organized into two reportable segments: Professional Technical Services (PTS) and Management Support Services (MSS). The Company's PTS reportable segment delivers planning, consulting, architectural and engineering design, and program and construction management services to institutional, commercial and government clients worldwide. The Company's MSS reportable segment provides program and facilities management and maintenance, training, logistics, consulting, and technical assistance and systems integration services, primarily for agencies of the U.S. government. These reportable segments are organized by the types of services provided, the differing specialized needs of the respective clients, and how the Company manages its business. The Company has aggregated various operating segments into its PTS reportable segment based on their similar characteristics, including similar long term financial performance, the nature of services provided, internal processes for delivering those services, and types of customers.

Table of Contents

Management internally analyzes the results of its operations using several non-GAAP measures. A significant portion of the Company's revenues relates to services provided by subcontractors and other non-employees that it categorizes as other direct costs. Other direct costs are segregated from cost of revenues resulting in revenue, net of other direct costs, which is a measure of work performed by Company employees. The Company has included information on revenue, net of other direct costs, as it believes that it is useful to view our revenue exclusive of costs associated with external service providers.

The following tables set forth summarized financial information concerning the Company's reportable segments:

Reportable Segments:	Professional Technical Services	Management Support Services (in thousands, except percentages)	Corporate	Total
<b>Three Months Ended June 30, 2010:</b>				
Revenue	\$ 1,337,803	\$ 297,380	\$	\$ 1,635,183
Revenue, net of other direct costs (non-GAAP)	965,120	97,544		1,062,664
Gross profit	105,933	9,132		115,065
Equity in earnings of joint ventures	2,237	3,704		5,941
General and administrative expenses			28,327	28,327
Operating income	108,170	12,836	(28,327)	92,679
Gross profit as a % of revenue	7.9%	3.1%		7.0%
Gross profit as a % of revenue, net of other direct costs (non-GAAP)	11.0%	9.4%		10.8%
<b>Three Months Ended June 30, 2009:</b>				
Revenue	\$ 1,255,039	\$ 286,250	\$	\$ 1,541,289
Revenue, net of other direct costs (non-GAAP)	897,015	73,620		970,635
Gross profit	77,185	10,332		87,517
Equity in earnings of joint ventures	3,397	2,756		6,153
General and administrative expenses			20,071	20,071
Operating income	80,582	13,088	(20,071)	73,599
Gross profit as a % of revenue	6.2%	3.6%		5.7%
Gross profit as a % of revenue, net of other direct costs (non-GAAP)	8.6%	14.0%		9.0%

Reportable Segments:	Professional Technical Services	Management Support Services (in thousands, except percentages)	Corporate	Total
<b>Nine Months Ended June 30, 2010:</b>				
Revenue	\$ 3,859,190	\$ 857,943	\$	\$ 4,717,133
Revenue, net of other direct costs (non-GAAP)	2,814,958	261,896		3,076,854
Gross profit	273,039	32,898		305,937
Equity in earnings of joint ventures	6,527	7,243		13,770
General and administrative expenses			78,090	78,090

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Operating income	279,566	40,141	(78,090)	241,617
Gross profit as a % of revenue	7.1%	3.8%		6.5%
Gross profit as a % of revenue, net of other direct costs (non-GAAP)	9.7%	12.6%		9.9%
<b>Nine Months Ended June 30, 2009:</b>				
Revenue	\$ 3,724,520	\$ 767,455	\$	\$ 4,491,975
Revenue, net of other direct costs (non-GAAP)	2,644,060	183,626		2,827,686
Gross profit	224,800	31,257		256,057
Equity in earnings of joint ventures	9,783	7,010		16,793
General and administrative expenses			61,248	61,248
Operating income	234,583	38,267	(61,248)	211,602
Gross profit as a % of revenue	6.0%	4.1%		5.7%
Gross profit as a % of revenue, net of other direct costs (non-GAAP)	8.5%	17.0%		9.1%

Table of Contents

**15. Subsequent Events**

In June 2010, the Company entered into a Note Purchase Agreement (Purchase Agreement) providing for a private placement of \$300.0 million in aggregate principal amount of senior unsecured notes (Notes). In July 2010 (Closing Date), the Notes were sold to institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Notes consisted of \$175.0 million of 5.43% Senior Notes, Series A, due July 2020 and \$125.0 million of 1.00% Senior Discount Notes, Series B, due July 2022 for net proceeds of \$249.8 million. Interest on the Notes will accrue from the Closing Date, and the Company will pay interest quarterly beginning October 2010, until the Notes mature. The Company's obligations under the Notes are guaranteed by certain subsidiaries of the Company pursuant to one or more subsidiary guaranties. The Company used the proceeds of the private placement to pay down certain indebtedness of the Company and for general corporate purposes, including acquisitions.

In July 2010, the Company completed the acquisition of Tishman Construction Corporation (Tishman). Tishman is a leading provider of construction management services in the United States and the United Arab Emirates. The Company acquired Tishman to expand its mix of higher-margin construction management/ program management business. The total purchase price for Tishman was approximately \$245.0 million, which the Company paid for with a combination of cash and stock.

In July 2010, the Company entered into a stock purchase agreement to acquire the stock of MT Holding Corp., a Delaware corporation and parent of McNeil Technologies, Inc. (McNeil), a Virginia corporation, at a purchase price of \$355 million, to be paid in cash. McNeil is a U.S. federal government contractor focused in intelligence analysis and support. The transaction is expected to be completed in the fourth quarter of fiscal 2010 or in the first quarter of fiscal 2011.

In August 2010, the Company entered into separate agreements to acquire the stock and assets of Davis Langdon, in Africa, Australia, Europe, the Middle East and the United States, for an aggregate purchase price of \$324 million in cash and stock. Davis Langdon provides construction cost planning and project management services to commercial and government building and public infrastructure owners. These transactions are expected to be completed in the first quarter of fiscal 2011.

**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

**Forward-Looking Statements**

This Quarterly Report contains certain forward-looking statements, including the plans and objectives of management for our business, operations and economic performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans or words of similar meaning, with reference to us or our management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including, but not limited to, our dependence on long-term government contracts, which are subject to uncertainties concerning the government's budgetary approval process, the possibility that our government contracts may be terminated by the government, our ability to successfully manage our joint ventures, the risk of employee misconduct or our failure to comply

with laws and regulations, our ability to successfully execute our mergers and acquisitions strategy, including the integration of new companies into our business, our ability to attract and retain key technical and management personnel, our ability to complete our backlog of uncompleted projects as currently projected, our liquidity and capital resources and changes in regulations or legislation that could affect us. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. In addition to the other risks and uncertainties mentioned in connection with certain forward-looking statements throughout this Quarterly Report, please review Part II, Item 1A Risk Factors in this Quarterly Report for a discussion of the factors, risks and uncertainties that could affect our future results.

## Overview

We are a leading global provider of professional technical and management support services for commercial and government clients around the world. We provide our services in a broad range of end markets and strategic geographic markets through a global network of operating offices and approximately 46,000 employees and staff employed in the field on projects.

Our business focuses primarily on providing fee-based professional technical and support services and, therefore, our business is labor and not capital intensive. We derive income from our ability to generate revenue and collect cash from our clients through the billing of our employees time spent on client projects and our ability to manage our costs. We report our business through two segments: Professional Technical Services (PTS) and Management Support Services (MSS).

Table of Contents

Our PTS segment delivers planning, consulting, architecture and engineering design, and program and construction management services to institutional, commercial and government clients worldwide in end markets such as the transportation, facilities, environmental and energy markets. PTS revenue is primarily derived from fees from services that we provide, as opposed to pass-through fees from subcontractors and other direct costs.

Our MSS segment provides facilities management and maintenance, training, logistics, consulting, technical assistance and systems integration services, primarily for agencies of the U.S. government. MSS revenue typically includes a significant amount of pass-through fees from subcontractors and other direct costs.

Our revenue is dependent on our ability to attract and retain qualified and productive employees, identify business opportunities, allocate our labor resources to profitable markets, secure new contracts and renew existing client agreements. Moreover, as a professional services company, maintaining the high quality of the work generated by our employees is integral to our revenue generation.

Our costs consist primarily of the compensation we pay to our employees, including salaries, fringe benefits, the costs of hiring subcontractors and other project-related expenses, and sales, general and administrative costs.

Throughout this section, we refer to companies we acquired in the last 12 months as acquired companies.

**Components of Income and Expense**

Our management analyzes the results of our operations using several non-GAAP measures. A significant portion of our revenue relates to services provided by subcontractors and other non-employees that we categorize as other direct costs. Those costs are typically paid to service providers upon our receipt of payment from the client. We segregate other direct costs from revenue resulting in a measurement that we refer to as revenue, net of other direct costs, which is a measure of work performed by AECOM employees. We have included information on revenue, net of other direct costs, as we believe that it is useful to view our revenue exclusive of costs associated with external service providers.

The following table presents, for the periods indicated, a presentation of the non-GAAP financial measures reconciled to the closest GAAP measures:

	Nine Months Ended	
	June 30, 2010	June 30, 2009
	(in millions)	
<b>Other Financial Data:</b>		
Revenue	\$ 4,717	\$ 4,492
Other direct costs	1,640	1,664
Revenue, net of other direct costs	3,077	2,828
Cost of revenue, net of other direct costs	2,771	2,572



Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Gross profit		306		256
Equity in earnings of joint ventures		14		17
General and administrative expenses		78		61
Income from operations	\$	242	\$	212

**Reconciliation of Cost of Revenue:**

Other direct costs	\$	1,640	\$	1,664
Cost of revenue, net of other direct costs		2,771		2,572
Cost of revenue	\$	4,411	\$	4,236

Table of Contents**Results of Operations****Consolidated Results**

	June 30, 2010	Three Months Ended		Change		June 30, 2010	Nine Months Ended		Change	
		June 30, 2009		\$	%		June 30, 2009	\$	%	
(in thousands, except percentages)										
Revenue	\$ 1,635,183	\$ 1,541,289	\$ 93,894	6.1%	\$ 4,717,133	\$ 4,491,975	\$ 225,158	5.0%		
Other direct costs	572,519	570,654	1,865	0.3	1,640,279	1,664,289	(24,010)	(1.4)		
Revenue, net of other direct costs	1,062,664	970,635	92,029	9.5	3,076,854	2,827,686	249,168	8.8		
Cost of revenue, net of other direct costs	947,599	883,118	64,481	7.3	2,770,917	2,571,629	199,288	7.7		
Gross profit	115,065	87,517	27,548	31.5	305,937	256,057	49,880	19.5		
Equity in earnings of joint ventures	5,941	6,153	(212)	(3.4)	13,770	16,793	(3,023)	(18.0)		
General and administrative expenses	28,327	20,071	8,256	41.1	78,090	61,248	16,842	27.5		
Income from operations	92,679	73,599	19,080	25.9	241,617	211,602	30,015	14.2		
Other (expense) income	(253)	3,248	(3,501)	(107.8)	3,280	(2,958)	6,238	(210.9)		
Interest expense, net	(1,126)	(2,617)	1,491	(57.0)	(4,486)	(8,134)	3,648	(44.9)		
Income before income tax expense	91,300	74,230	17,070	23.0	240,411	200,510	39,901	19.9		
Income tax expense	22,665	21,187	1,478	7.0	60,178	57,078	3,100	5.4		
Income from continuing operations	68,635	53,043	15,592	29.4	180,233	143,432	36,801	25.7		
Discontinued operations, net of tax		1,118	(1,118)	(100.0)	(77)	2,810	(2,887)	(102.7)		
Net income	68,635	54,161	14,474	26.7	180,156	146,242	33,914	23.2		
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(3,793)	(3,040)	(753)	24.8	(11,043)	(10,818)	(225)	2.1		
Net income attributable to AECOM	\$ 64,842	\$ 51,121	\$ 13,721	26.8%	\$ 169,113	\$ 135,424	\$ 33,689	24.9%		

The following table presents the percentage relationship of certain items to revenue, net of other direct costs:

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	89.2	91.0	90.1	90.9
Gross margin	10.8	9.0	9.9	9.1
Equity in earnings of joint ventures	0.6	0.6	0.4	0.6
General and administrative expense	2.7	2.0	2.4	2.2
Income from operations	8.7	7.6	7.9	7.5
Other income (expense)		0.3	0.1	(0.1)
Interest expense, net	(0.1)	(0.3)	(0.2)	(0.3)
Income before income tax expense	8.6	7.6	7.8	7.1

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Income tax expense	2.1	2.1	1.9	2.0
Income from continuing operations	6.5	5.5	5.9	5.1
Discontinued operations, net of tax		0.1		0.1
Net income	6.5	5.6	5.9	5.2
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.4)	(0.3)	(0.4)	(0.4)
Net income attributable to AECOM	6.1%	5.3%	5.5%	4.8%

**Revenue**

Our revenue for the three months ended June 30, 2010 increased \$93.9 million, or 6.1%, to \$1.6 billion as compared to \$1.5 billion for the corresponding period last year. \$65.8 million of our revenue growth for the three months ended June 30, 2010 was provided by companies acquired in the past twelve months. Excluding the revenue provided by companies acquired in the past twelve months, revenue increased \$28.1 million, or 1.8%, from the three months ended June 30, 2009.

Our revenue for the nine months ended June 30, 2010 increased \$225.2 million, or 5.0%, to \$4.7 billion as compared to \$4.5 billion for the corresponding period last year. \$174.5 million of this growth was provided by companies acquired in the past twelve months. Excluding the revenue provided by acquired companies, revenue increased \$50.7 million, or 1.1%.

Table of Contents

The increase in revenue, excluding acquired companies, for the three months ended June 30, 2010 was primarily attributable to stronger foreign currencies (primarily the Australian dollar and Canadian dollar) of approximately \$40 million, and increased demand for our engineering and program management services on infrastructure projects in Asia, Australia, and Canada. These increases were partially offset by a decrease in demand for our architecture, engineering, and environmental management services primarily in the privately financed facilities market of approximately \$22 million.

The increase in revenue, excluding acquired companies, for the nine months ended June 30, 2010 was primarily attributable to a \$30 million increase in our MSS segment, excluding an acquired company, primarily resulting from increased volume on our Contract Field Teams and global maintenance and supply services projects for the United States Army in the Middle East, including Afghanistan, stronger foreign currencies (primarily the Australian dollar and Canadian dollar) of approximately \$170 million and increased demand for our engineering and program management services on infrastructure projects in Asia of approximately \$30 million. Increases for these services were partially offset by the decrease in demand for our services in the privately financed facilities market, and reduced activity in our United States infrastructure business resulting in declines in revenue of approximately \$135 million and \$50 million, respectively.

***Revenue, Net of Other Direct Costs***

Our revenue, net of other direct costs, for the three months ended June 30, 2010 increased \$92.0 million, or 9.5%, to \$1.1 billion as compared to \$1.0 billion for the corresponding period last year. Of this increase, \$45.3 million, or 49.2%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$46.7 million, or 4.8% over the three months ended June 30, 2009.

Our revenue, net of other direct costs, for the nine months ended June 30, 2010 increased \$249.2 million, or 8.8%, to \$3.1 billion as compared to \$2.8 billion for the corresponding period last year. Of this increase, \$119.4 million, or 47.9%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$129.8 million, or 4.6% over the nine months ended June 30, 2009.

The increases in revenue, net of other direct costs, excluding revenue net of other direct costs provided by acquired companies, for the three and nine months ended June 30, 2010 were primarily due to reasons noted above under Revenue.

***Gross Profit***

Our gross profit for the three months ended June 30, 2010 increased \$27.6 million, or 31.5%, to \$115.1 million as compared to \$87.5 million for the corresponding period last year. Of this increase, \$3.7 million, or 13.4%, was provided by companies acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit increased \$23.9 million, or 27.3%, from the three months ended June 30, 2009. For the three months ended June 30, 2010, gross profit, as a percentage of revenue, net of other direct costs, increased to 10.8% from 9.0% in the three months ended June 30, 2009.

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Our gross profit for the nine months ended June 30, 2010 increased \$49.8 million, or 19.5%, to \$305.9 million as compared to \$256.1 million in the corresponding period last year. Of this increase, \$11.8 million, or 23.7%, was provided by companies acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit increased \$38.0 million, or 14.8%. For the nine months ended June 30, 2010, gross profit, as a percentage of revenue, net of other direct costs, increased to 9.9% from 9.1% in the corresponding period last year.

The increases in gross profit, excluding acquired companies, and gross profit, as a percentage of revenue, net of other direct costs, were primarily attributable to the benefits realized from our continuing cost efficiency initiatives and the integration of our Earth Tech acquisition, partially offset by lower margins in our MSS segment as described below. The increases in gross profit were also partially due to favorable changes in foreign exchange rates.

### *Equity in Earnings of Joint Ventures*

Our equity in earnings of joint ventures for the three months ended June 30, 2010 decreased \$0.3 million, or 3.4%, to \$5.9 million as compared to \$6.2 million in the corresponding period last year.

Our equity in earnings of joint ventures for the nine months ended June 30, 2010 decreased \$3.0 million, or 18.0%, to \$13.8 million as compared to \$16.8 million in the corresponding period last year.

The decrease for the nine months ended June 30, 2010 was primarily attributable to decreased volume in a joint venture providing engineering and design services at an airport in the United Arab Emirates and the acquisition of a controlling interest in a joint venture that was previously accounted for under the equity method.

Table of Contents

***General and Administrative Expenses***

Our general and administrative expenses for the three months ended June 30, 2010 increased \$8.2 million, or 41.1%, to \$28.3 million as compared to \$20.1 million for the corresponding period last year. For the three months ended June 30, 2010, general and administrative expenses, as a percentage of revenue, net of other direct costs was 2.7% as compared to 2.0% in the corresponding period last year.

Our general and administrative expenses for the nine months ended June 30, 2010 increased \$16.9 million, or 27.5%, to \$78.1 million as compared to \$61.2 million in the corresponding period last year. For the nine months ended June 30, 2010, general and administrative expenses, as a percentage of revenue, net of other direct costs was 2.4% as compared to 2.2% in the corresponding period last year.

The increase in general and administrative expenses was primarily attributable to costs associated with staffing and other expenses related to the growth in our business, including merger and acquisition activities, and continued investments to support our strategic initiatives, such as the launch of our new branding campaign.

***Other Income / Expense***

Our other expense for the three months ended June 30, 2010 was \$0.3 million compared to other income of \$3.2 million for the three months ended June 30, 2009.

Our other income for the nine months ended June 30, 2010 was \$3.3 million compared to other expense of \$3.0 million for the nine months ended June 30, 2009.

Other income and expense is primarily comprised of net gains and losses on investments we hold to offset our exposure related to employees investments in a deferred compensation plan. The changes in other income and expense noted above were primarily due to the net gains and losses associated with these investments.

***Interest Income / Expense***

Our net interest expense for the three months ended June 30, 2010 decreased \$1.5 million, or 57.0% to \$1.1 million as compared to \$2.6 million for the three months ended June 30, 2009.

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Our net interest expense for the nine months ended June 30, 2010 decreased \$3.6 million, or 44.9% to \$4.5 million as compared to \$8.1 million in the corresponding period last year.

The decrease in net interest expense for the nine months ended June 30, 2010 as compared to last year was primarily due to higher borrowings in the prior period associated with the funding of acquisitions, including Earth Tech.

### *Income Tax Expense*

Our income tax expense for the three months ended June 30, 2010 increased \$1.5 million, or 7.0%, to \$22.7 million as compared to \$21.2 million for the three months ended June 30, 2009. The effective tax rate was 24.8% and 28.5% for the three months ended June 30, 2010 and 2009, respectively.

Our income tax expense for the nine months ended June 30, 2010 increased \$3.1 million, or 5.4%, to \$60.2 million as compared to \$57.1 million in the corresponding period last year. The effective tax rate for the nine months ended June 30, 2010 was 25.0% as compared to 28.5% for the corresponding period last year.

The decrease in the 2010 tax rate is primarily due to the recognition of tax benefits discrete to specific quarters. During the first quarter ended December 31, 2009, \$3.2 million benefit was recognized related to the favorable settlement of IRS research and experimentation credits for the audit years 2006 and 2007. In the second quarter ended March 31, 2010, a \$2.2 million benefit was recognized related to the remeasurement of the Canadian Scientific Research and Experimental Development credit uncertain tax positions for years prior to 2009, as well as, a \$4.3 million benefit associated with the restructuring of our Australian operations. The second quarter benefits were partially offset by a \$2.9 million increase to tax expense for items raised during the examination of years 2006 and 2007 which previously had not met the more likely than not threshold for recognition. During the third quarter ended June 30, 2010, a \$7.4 million benefit was recognized due to the effective settlement of uncertain tax positions relating to audit years currently under examination by the Internal Revenue Service. Additionally, approximately 50% of the Company's operations is conducted in jurisdictions with a tax rate lower than the U.S. statutory tax rate of 35%.

Table of Contents*Net Income Attributable to AECOM*

The factors described above resulted in net income of \$64.8 million and \$169.1 million for the three and nine months ended June 30, 2010, as compared to net income of \$51.1 million and \$135.4 million for the three and nine months ended June 30, 2009.

*Results of Operations by Reportable Segment:*Professional Technical Services

	June 30, 2010	Three Months Ended		Change		June 30, 2010	Nine Months Ended		Change	
		June 30, 2009		\$	%		June 30, 2009	\$	%	
(in thousands, except percentages)										
Revenue	\$ 1,337,803	\$ 1,255,039	\$ 82,764	6.6%	\$ 3,859,190	\$ 3,724,520	\$ 134,670	3.6%		
Other direct costs	372,683	358,024	14,659	4.1	1,044,232	1,080,460	(36,228)	(3.4)		
Revenue, net of other direct costs	965,120	897,015	68,105	7.6	2,814,958	2,644,060	170,898	6.5		
Cost of revenue, net of other direct costs	859,187	819,830	39,357	4.8	2,541,919	2,419,260	122,659	5.1		
Gross profit	\$ 105,933	\$ 77,185	\$ 28,748	37.2%	\$ 273,039	\$ 224,800	\$ 48,239	21.5%		

The following table presents the percentage relationship of certain items to revenue, net of other direct costs:

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	89.0	91.4	90.3	91.5
Gross margin	11.0%	8.6%	9.7%	8.5%

*Revenue*

Revenue for our PTS segment for the three months ended June 30, 2010 increased \$82.8 million, or 6.6%, to \$1.3 billion. \$43.8 million was provided by companies acquired in the past twelve months. Excluding revenue provided by acquired companies, revenue increased \$39.0 million, or 3.1%, over the three months ended June 30, 2010.



## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Revenue for our PTS segment for the nine months ended June 30, 2010 increased \$134.7 million, or 3.6%, to \$3.9 billion. \$114.1 million was provided by companies acquired in the past twelve months. Excluding the revenue provided by acquired companies, revenue increased \$20.6 million, or 0.6%.

The increase in revenue, excluding acquired companies, for the three months ended June 30, 2010 was primarily attributable to stronger foreign currencies (primarily the Australian dollar and Canadian dollar) of approximately \$40 million, and increased demand for our engineering and program management services on infrastructure projects in Asia, Australia, and Canada. Revenue growth from these markets of approximately \$36 million and stronger foreign currencies were partially offset by a decrease in demand for our architecture, engineering, and environmental management services in the privately financed facilities market and reduced activity in our United States infrastructure business resulting in declines in revenue of approximately \$22 million and \$13 million, respectively.

The increase in revenue, excluding acquired companies, for the nine months ended June 30, 2010 was primarily attributable to stronger foreign currencies (primarily the Australian dollar and Canadian dollar) of approximately \$170 million and increased demand for our engineering and program management services on infrastructure projects in Asia of approximately \$30 million. These increases were partially offset by the decrease in demand for our services in the privately financed facilities market, and reduced activity in our United States infrastructure business resulting in declines in revenue of approximately \$135 million and \$50 million, respectively.

### ***Revenue, Net of Other Direct Costs***

Revenue, net of other direct costs, for our PTS segment for the three months ended June 30, 2010 increased \$68.1 million, or 7.6%, to \$965.1 million as compared to \$897.0 million for the corresponding period last year. Of this increase, \$31.1 million, or 45.7%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$37.0 million, or 4.1%, over the three months ended June 30, 2009.

Table of Contents

Revenue, net of other direct costs, for our PTS segment for the nine months ended June 30, 2010 increased \$170.9 million, or 6.5%, to \$2.8 billion as compared to \$2.6 billion for the corresponding period last year. Of this increase, \$78.0 million, or 45.6%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$92.9 million, or 3.5% over the nine months ended June 30, 2009.

The increases in revenue, net of other direct costs, excluding revenue net of other direct costs provided by acquired companies, for the three and nine months ended June 30, 2010 were primarily due to reasons noted above under Revenue.

**Gross Profit**

Gross profit for our PTS segment for the three months ended June 30, 2010 increased \$28.7 million, or 37.2%, to \$105.9 million as compared to \$77.2 million for the corresponding period last year. Of this increase, \$3.1 million, or 10.8%, was provided by companies acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit increased \$25.6 million, or 33.2%. As a percentage of revenue, net of other direct costs, gross profit increased to 11.0% of revenue, net of other direct costs, for the three months ended June 30, 2010 from 8.6% in the corresponding period last year.

Gross profit for our PTS segment for the nine months ended June 30, 2010 increased \$48.2 million, or 21.5%, to \$273.0 million as compared to \$224.8 million in the corresponding period last year. Of this increase, \$9.9 million, or 20.5%, was provided by companies acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit increased \$38.3 million, or 17.0%. For the nine months ended June 30, 2010, gross profit, as a percentage of revenue, net of other direct costs, was 9.7% as compared to 8.5% in the corresponding period last year.

The increases in gross profit, excluding acquired companies, and gross profit, as a percentage of revenue, net of other direct costs, were primarily attributable to the benefits realized from our continuing cost efficiency initiatives including the integration of our Earth Tech acquisition and improved project performance. The increases in gross profit were also partially due to favorable changes in foreign exchange rates.

**Management Support Services**

	June 30, 2010	Three Months Ended		Change		June 30, 2010	Nine Months Ended		Change	
		June 30, 2009		\$	%		June 30, 2009		\$	%
(in thousands, except percentages)										
Revenue	\$ 297,380	\$ 286,250	\$ 11,130	3.9%	\$ 857,943	\$ 767,455	\$ 90,488	11.8%		
Other direct costs	199,836	212,630	(12,794)	(6.0)	596,047	583,829	12,218	2.1		
Revenue, net of other direct costs	97,544	73,620	23,924	32.5	261,896	183,626	78,270	42.6		
Cost of revenue, net of other direct costs	88,412	63,288	25,124	39.7	228,998	152,369	76,629	50.3		

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Gross profit	\$	9,132	\$	10,332	\$	(1,200)	(11.6)%	\$	32,898	\$	31,257	\$	1,641	5.3%
--------------	----	-------	----	--------	----	---------	---------	----	--------	----	--------	----	-------	------

The following table presents the percentage relationship of certain items to revenue, net of other direct costs:

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	90.6	86.0	87.4	83.0
Gross margin	9.4%	14.0%	12.6%	17.0%

**Revenue**

Revenue for our MSS segment for the three months ended June 30, 2010 increased \$11.1 million, or 3.9%, to \$297.4 million as compared to \$286.3 million for the corresponding period last year. \$22.0 million of our revenue for the three months ended June 30, 2010 was provided by a company acquired in the past twelve months. Excluding revenue provided by acquired companies, revenue decreased \$10.9 million, or 3.8%, over the three months ended June 30, 2009.

Revenue for our MSS segment for the nine months ended June 30, 2010 increased \$90.4 million, or 11.8%, to \$857.9 million as compared to \$767.5 million for the corresponding period last year. \$60.4 million was provided by a company acquired in the past twelve months. Excluding the revenue provided by acquired companies, revenue increased \$30.0 million, or 3.9%.

Table of Contents

The increase in revenue for the nine months ended June 30, 2010, excluding acquired companies, was primarily attributable to new task orders on our Contract Field Teams project with the United States Air Force, and a higher volume of activity on our global maintenance and supply services projects for the United States Army in the Middle East. Revenue growth from these projects was approximately \$87 million. These increases were partially offset by the completion in the third quarter of fiscal 2009 of a base operations contract at a military facility in the United States and decreased activity on a depot maintenance project for the United States Army.

***Revenue, Net of Other Direct Costs***

Revenue, net of other direct costs, for our MSS segment for the three months ended June 30, 2010 increased \$23.9 million, or 32.5%, to \$97.5 million as compared to \$73.6 million for the corresponding period last year. Of this increase, \$14.2 million, or 59.4%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs provided by acquired companies, revenue, net of other direct costs, increased \$9.7 million, or 13.2% over the three months ended June 30, 2009.

Revenue, net of other direct costs, for our MSS segment for the nine months ended June 30, 2010 increased \$78.3 million, or 42.6%, to \$261.9 million as compared to \$183.6 million for the corresponding period last year. Of this increase, \$41.4 million, or 52.9%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$36.9 million, or 20.1% over the nine months ended June 30, 2009.

The increases in revenue, net of other direct costs, excluding acquired companies, for the three and nine months ended June 30, 2010 were primarily attributable to an increase in our services and personnel resulting from task orders received on our Contract Field Teams project and increased activity for our global maintenance and support services for the United States Army. These increases were partially offset by declines associated with the base operations and depot maintenance projects noted above.

The higher percentage growth in revenue, net of other direct costs as compared to revenue was the result of the increase in task orders on the Contract Field Teams and global maintenance and supply services projects which have a significantly greater portion of work performed directly by our employees as compared to other projects in the MSS segment.

***Gross Profit***

Gross profit for our MSS segment for the three months ended June 30, 2010 decreased \$1.2 million, or 11.6%, to \$9.1 million as compared to \$10.3 million for the corresponding period last year. \$0.6 million of gross profit was provided by a company acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit decreased \$1.8 million, or 17.5%. As a percentage of revenue, net of other direct costs, gross profit decreased to 9.4% in the three months ended June 30, 2010 from 14.0% in the corresponding period last year.

Gross profit for our MSS segment for the nine months ended June 30, 2010 increased \$1.6 million, or 5.3%, to \$32.9 million as compared to \$31.3 million in the corresponding period last year. \$1.9 million of gross profit was provided by a company acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit decreased \$0.3 million, or 1.0%. For the nine months ended June 30, 2010,

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

gross profit, as a percentage of revenue, net of other direct costs, was 12.6% as compared to 17.0% in the corresponding period last year.

The decrease in gross profit, excluding acquired companies, for the three months ended June 30, 2010 as compared to the corresponding period in the prior year, was primarily attributable to costs associated with staffing and other expenses related to strategic growth in the MSS business and a reserve related to an award fee on a United States Army contract.

The decreases in gross profit, as a percentage of revenue, net of other direct costs for the three and nine months ended June 30, 2010 were primarily due to the growth in revenue, net of other direct costs, for the Contract Field Teams project and global maintenance and support services noted above, which have lower margins than other MSS projects.

### **Seasonality**

We experience seasonal trends in our business. The first quarter of our fiscal year (October 1 to December 31) is typically our weakest quarter. The harsher weather conditions impact our ability to complete work in parts of North America and the holiday season schedule affects our productivity during this period. For these reasons, coupled with the number and significance of client contracts commenced and completed during a particular period, as well as the timing of expenses incurred for corporate initiatives, it is not unusual for us to experience seasonal changes or fluctuations in our quarterly operating results. Our revenue is typically higher in the last half of the fiscal year. Many U.S. state governments with fiscal years ending on June 30 tend to accelerate spending during

Table of Contents

their first quarter, when new funding becomes available. In addition, we find that the U.S. federal government tends to authorize more work during the period preceding the end of our fiscal year, September 30. Further, our construction management revenue typically increases during the high construction season of the summer months. Within the United States, as well as other parts of the world, our business generally benefits from milder weather conditions in our fiscal fourth quarter, which allows for more productivity from our on-site civil services. For these reasons, coupled with the number and significance of client contracts commenced and completed during a period, as well as the time of expenses incurred for corporate initiatives, it is not unusual for us to experience seasonal changes or fluctuations in our quarterly operating results.

**Liquidity and Capital Resources**

*Cash Flows*

Our principal sources of liquidity are cash flows from operations and access to financial markets. Our principal uses of cash are operating expenses, capital expenditures, working capital requirements, acquisitions, and repayment of debt. We believe our anticipated sources of liquidity including operating cash flows, existing cash and cash equivalents, borrowing capacity under our revolving credit facility and our ability to issue debt or equity, if required, will be sufficient to meet our projected cash requirements for at least the next 12 months. Subsequent to June 30, 2010, we issued \$300.0 million in aggregate principal amount of senior unsecured notes, consisting of \$175.0 million of 5.43% Senior Notes, Series A, due July 7, 2020 and \$125.0 million of 1.00% Senior Discount Notes, Series B, due July 7, 2022 for net proceeds of \$249.8 million. We also acquired all of the issued and outstanding capital stock of Tishman Construction Corporation for an aggregate purchase price of \$245.0 million, paid in cash and shares of stock, subject to post-closing adjustment. Also in the fourth quarter of fiscal 2010, we entered into agreements to acquire MT Holdings Corp., the parent of McNeil Technologies, Inc., a federal government intelligence services provider, and certain operations of Davis Langdon, a global construction management services firm, for \$355 million and \$324 million, respectively. These transactions, which we plan to finance with a combination of bank term loan and revolver debt, are expected to be completed later in the fourth quarter of fiscal 2010 or the first quarter of fiscal 2011. See also Note 15 to the consolidated financial statements.

At June 30, 2010, cash and cash equivalents were \$293.9 million, an increase of \$3.1 million, or 1.1%, from \$290.8 million at September 30, 2009. This increase was primarily attributable to cash provided by operating activities, borrowings under credit agreements, and proceeds from the disposal of a business, offset by payments for business acquisitions.

Net cash provided by operating activities was \$43.7 million for the nine months ended June 30, 2010, compared with cash provided by operating activities of \$107.9 million for the nine months ended June 30, 2009. This change was primarily attributable to the timing of collections and payments of accounts receivable, billings in excess of costs, accounts payable and accrued expenses.

Net cash used in investing activities was \$73.4 million for the nine months ended June 30, 2010, compared with \$18.4 million of net cash provided by investing activities for the nine months ended June 30, 2009. This change was primarily due to proceeds from the sales of investment securities of \$81.4 million during the prior period and increased payments for business acquisitions, offset by proceeds from the sale of a business in the current period.

Net cash provided by financing activities was \$37.5 million for the nine months ended June 30, 2010, compared with \$42.3 million of net cash used in financing activities in the comparable period last year. This change was primarily attributable to a significant decrease in repayments of

borrowings under our credit agreements, offset by proceeds from the issuance of common stock in March 2009.

***Working Capital***

Working capital, or current assets less current liabilities, increased \$153.7 million, or 23.4%, to \$811.5 million at June 30, 2010 from \$657.8 million at September 30, 2009. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, increased \$159.8 million, or 11.4%, to \$1.6 billion at June 30, 2010, primarily attributable to the timing of billings and collections of accounts receivable, and acquisitions. Changes in working capital are typical for our industry and are not indicative of any known trend or fundamental change in our business.

Accounts receivable increased 9.8%, or \$169.7 million, from September 30, 2009 to June 30, 2010 primarily due to timing of collections. Days Sales Outstanding (DSO), including accounts receivable, net of billings in excess of costs on uncompleted contracts, at June 30, 2010, was 87 days compared to the 78 days at September 30, 2009. See discussion in *Cash Flows* above.

In Note 6 to the consolidated financial statements, Accounts Receivable net, the Company provides a comparative analysis of the various components of accounts receivable. Substantially all unbilled receivables as of June 30, 2010 and September 30, 2009 are expected to be billed and collected within twelve months of such date.

Table of Contents

The Company records unbilled receivables related to claims only if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated. In such cases, the Company records revenue only to the extent that contract costs relating to the claim have been incurred. As of June 30, 2010 and September 30, 2009, the Company had no significant net receivables related to contract claims. The Company accrues award fees in unbilled receivables only when there is sufficient information to assess contract performance. On contracts that represent higher than normal risk or technical difficulty, the Company may defer all award fees until an award fee letter is received.

Because our revenue depends to a great extent on billable labor hours, most of our charges are invoiced following the end of the month in which the hours were worked. Other direct costs are normally billed along with labor hours. However, as opposed to salary costs, which are generally paid on either a bi-weekly or monthly basis, other direct costs are generally not paid until we receive payment (in some cases in the form of advances) from our customers.

***Borrowings and Lines of Credit***

Debt consisted of the following:

	June 30, 2010	September 30, 2009
	(in thousands)	
Unsecured revolving credit facility	\$ 129,121	\$ 100,000
Unsecured term credit agreement	16,081	21,196
Secured notes	26,058	26,633
Other debt	17,531	23,380
Total debt	188,791	171,209
Less: Current portion of debt and short-term borrowings	(15,151)	(29,107)
Long-term debt, less current portion	\$ 173,640	\$ 142,102

***Unsecured Revolving Credit Facility***

We have an unsecured revolving credit facility with a syndicate of banks to support our working capital and acquisition needs. The borrowing capacity under our unsecured revolving credit facility is \$600 million, and pursuant to the terms of the associated credit agreement, has an expiration date of August 31, 2012. We may also, at our option, request an increase in the commitments under the facility up to a total of \$750 million, subject to lender approval. The credit agreement contains customary representations and warranties, affirmative and negative covenants and events of default and includes a sub-limit for financial and commercial standby letters of credit. We may borrow, at our option, at either (a) a base rate (the greater of the federal funds rate plus 0.50% or the bank's reference rate), or (b) an offshore, or LIBOR, rate plus a margin which ranges from 0.50% to 1.38%. In addition to these borrowing rates, there is a commitment fee which ranges from 0.10% to 0.25% on any unused commitment. At June 30, 2010 and September 30, 2009, \$129.1 million and \$100.0 million, respectively, was outstanding under our revolving credit facility. At June 30, 2010 and September 30, 2009, outstanding standby letters of credit totaled \$31.8 million and \$29.9 million, respectively, under our revolving credit facility. At June 30, 2010, we had \$439.1 million available for borrowing under our revolving credit facility. Our debt agreements contain certain negative covenants relating to the Company's net worth and leverage, based on outstanding borrowings (including financial letters of credit) and earnings before interest, taxes, depreciation, and amortization. At June 30, 2010, the Company was in compliance with these covenants. Additionally, we could have drawn upon the remaining \$439.1 million available under our revolving credit facility.



Our remaining interest rate swap agreement with a financial institution fixes the variable interest rate of \$50.0 million of the outstanding debt under our revolving credit facility. We applied cash flow hedge accounting to the interest rate swap agreements in accordance with ASC 815-20, *Accounting for Derivative Instruments and Hedging Activities*. Accordingly, the derivatives are recorded as assets or liabilities at fair value and the effective portion of changes in the fair value of the derivative, as measured quarterly, are reported in other comprehensive income. The change in fair value related to the derivatives included in other comprehensive income/(loss) for the nine months ended June 30, 2010 and June 30, 2009 was \$(1.0) million and \$(1.3) million, respectively. Based on the swap's expiration date, the total \$0.1 million recorded in accumulated other comprehensive income at June 30, 2010 will be recorded as interest expense over the next twelve months. The fixed rate and the related expiration date of the outstanding swap agreement is as follows:

	<b>Notional Amount (in thousands)</b>	<b>Fixed Rate</b>	<b>Expiration Date</b>
\$	50,000	3.2%	August 2010

Our average effective interest rate on borrowings under our revolving credit facility, including the effects of the swaps, during

Table of Contents

the nine months ended June 30, 2010 and September 30, 2009 was 2.9% and 3.1%, respectively.

***Unsecured Term Credit Agreement***

In September 2006, through certain wholly-owned subsidiaries, we entered into an unsecured term credit agreement with a syndicate of banks to facilitate dividend repatriations under Section 965 of the American Jobs Creation Act of 2004, which provided for a limited time, the opportunity to repatriate non-U.S. earnings to the U.S. at a 5.25% tax rate. The term credit agreement provides for a \$65.0 million, five-year term loan, due September 2011, among four subsidiary borrowers and one subsidiary guarantor. In order to obtain favorable pricing, we also provided a parent company guarantee. The terms and conditions of the term credit agreement are similar to those contained in our revolving credit facility.

***Secured Notes***

Secured notes are notes payable to a bank, collateralized by real properties, which we assumed in connection with a business acquired during the year ended September 30, 2008. These notes payable bear interest at 6.04% per annum and mature in December 2028.

***Other Debt***

Other debt consists primarily of bank overdrafts. In addition to the revolving credit facility discussed above, at June 30, 2010, we had \$211.5 million of unsecured credit facilities primarily used to cover periodic overdrafts and standby letters of credit, of which \$135.2 million was utilized for outstanding standby letters of credit.

***Commitments and Contingencies***

Other than normal property and equipment additions and replacements, expenditures to further the implementation of our Enterprise Resource Planning (ERP) system, commitments under our incentive compensation programs, and acquisitions from time to time, we currently do not have any significant capital expenditures or outlays planned except as described below. However, as we acquire additional businesses in the future or if we embark on other capital-intensive initiatives, additional working capital will be required. See also Note 15 to the Consolidated Financial Statements and Liquidity and Capital Resources.

Under our unsecured revolving credit facility and other facilities discussed in Other Debt above, as of June 30, 2010, there was approximately \$31.8 million and \$135.2 million, respectively, outstanding under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for contract performance guarantees. For those projects for which we have issued a performance guarantee, if the project subsequently fails to meet guaranteed performance standards, we may either incur significant additional costs or be held

responsible for the costs incurred by the client to achieve the required performance standards.

We recognized on our consolidated balance sheet the funded status (measured as the difference between the fair value of plan assets and the projected benefit obligation) of the Company's pension plans. The total amounts of employer contributions paid for the nine months ended June 30, 2010 were \$5.6 million for U.S. plans and \$11.9 million for non-U.S. plans. The expected remaining scheduled employer contributions for the fiscal year ending September 30, 2010 are \$0.6 million for U.S. plans and \$3.6 million for non-U.S. plans. We do not have a required minimum contribution for our domestic plans; however, we may make additional discretionary contributions. In the future, such pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors.

***Combat Support Associates Joint Venture - Kuwait Labor Law Matter***

On March 24, 2010, the U.S. Defense Contract Audit Agency (DCAA) issued a DCAA Form 1 questioning costs incurred during fiscal year 2007 by Combat Support Associates (CSA), a consolidated joint venture that includes AECOM Government Services, Inc. (AGS), in the performance of a U.S. Government contract in Kuwait. The costs in question were incurred in paying Service Terminal Indemnity (STI) to CSA's employees at the end of their employment agreements. The DCAA questioned the reasonableness and allowability of the payments on the basis that CSA allegedly paid more than the amount required by the Kuwait Labor Law.

CSA has requested that the U.S. Government contracting officer make a final determination that the costs are proper under the contract. If the contracting officer declines to overrule the DCAA Form 1, CSA intends to utilize all proper avenues to defend against the Government's claim, including appeals processes.

We believe that CSA has been and continues to be in compliance with STI requirements of Kuwait labor laws and have received a letter from Kuwaiti legal counsel supporting our position. Therefore, we presently believe that, if required, CSA would be successful in obtaining a

Table of Contents

favorable determination of this matter. However, if the DCAA Form 1 is not overruled and subsequent appeals were unsuccessful, the decision could have a material adverse effect on our results of operations.

**Recently Issued Accounting Pronouncements**

In October 2009, the FASB issued ASU No. 2009-13 *Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which updates ASC Topic 605, *Revenue Recognition*. ASU 2009-13 provides another alternative for determining the selling price of deliverables and will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and could result in earlier revenue recognition. ASU 2009-13 is effective for the Company prospectively for revenue arrangements entered into or materially modified on or after October 1, 2010; however, early adoption is permitted. We are currently evaluating the impact of adopting ASU 2009-13 on our financial statements.

In December 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 amends prior accounting for variable interests and requires a company to perform an analysis to determine whether its interests give it a controlling financial interest in a variable interest entity. A company must also assess whether it has the power to direct the activities of the variable interest entity and whether it has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. ASU 2009-17 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and expands required disclosures. ASU 2009-17 may be applied retrospectively in previously issued financial statements with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. ASU 2009-17 is effective for the Company in our fiscal year beginning October 1, 2010. We are currently evaluating the impact that the adoption of ASU 2009-17 will have on our financial statements.

In December 2008, the FASB issued ASC 715-20-65, *Employers' Disclosures about Postretirement Benefit Plan Assets* (ASC 715-20-65). ASC 715-20-65 amends SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional disclosure requirements include expanded disclosure about an entity's investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. This standard is effective for the Company in our fiscal year ending September 30, 2010. We will amend our disclosures accordingly beginning with the financial statements included in our fiscal year 2010 Form 10-K.

**Off-Balance Sheet Arrangements**

We enter into various joint venture arrangements to provide architectural, engineering, program management, construction management and operations and maintenance services. The ownership percentage of these joint ventures is typically representative of the work to be performed or the amount of risk assumed by each joint venture partner. Some of these joint ventures are considered variable interest entities under ASC 810-10, *Consolidation of Variable Interest Entities*. We have consolidated all joint ventures for which we are the primary beneficiary. For all others, the Company's portion of the earnings is recorded in equity in earnings of joint ventures. See Note 9 to the consolidated financial statements in our 2009 Form 10-K. We do not believe that we have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Financial Market Risks**

We are exposed to market risk, primarily related to foreign currency exchange rates and interest rate exposure of our debt obligations that bear interest based on floating rates. We actively monitor these exposures. Our objective is to reduce, where we deem appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign exchange rates and interest rates. In the past, we have entered into derivative financial instruments, such as forward contracts and interest rate hedge contracts. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage our exposures. We do not use derivative financial instruments for trading purposes.

***Foreign Exchange Rates***

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the U.S. We do not comprehensively hedge our exposure to currency rate changes; however, our exposure to foreign currency fluctuations is limited in that most of our contracts require client payments to be in currencies corresponding to the currency in which costs are incurred. As a result, we typically do not need to hedge foreign currency cash flows for contract work performed. The functional currency of our

Table of Contents

significant foreign operations is the local currency.

***Interest Rates***

Our senior revolving credit facility and certain other debt obligations are subject to variable rate interest which could be adversely affected by an increase in interest rates. As of June 30, 2010 and September 30, 2009, we had \$145.2 and \$121.2 million, respectively, outstanding borrowings under our senior revolving credit facility and our term credit agreement. Interest on amounts borrowed under our senior revolving credit facility and our term credit agreement is subject to adjustment based on certain levels of financial performance. For borrowings at offshore rates, the applicable margin added can range from 0.50% to 1.38%. For the nine months ended June 30, 2010, our weighted average borrowings on our senior revolving credit facility were \$125.1 million. If short-term floating interest rates were to increase or decrease by 1%, our annual interest expense could have increased or decreased by \$1.3 million. We invest our cash in a variety of financial instruments, consisting principally of money market securities or other highly liquid, short-term securities that are subject to minimal credit and market risk.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ( Exchange Act ), were effective as of June 30, 2010 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during our quarter ended June 30, 2010 which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

As a government contractor, we are subject to various laws and regulations that are more restrictive than those applicable to non-government contractors. Intense government scrutiny of contractors' compliance with those laws and regulations through audits and investigations is inherent in government contracting, and, from time to time, we receive inquiries, subpoenas, and similar demands related to our ongoing business with government entities. Violations can result in civil or criminal liability as well as suspension or debarment from eligibility for awards of new government contracts or option renewals.

We are involved in various investigations, claims and lawsuits in the normal conduct of our business. See Note 13, Commitments and Contingencies, to our Condensed Consolidated Financial Statements included under Part I Item 1 of this report for a discussion of a matter to which we are a party. From time to time, we establish reserves for litigation when we consider it probable that a loss will occur.

#### **Item 1A. Risk Factors**

*The Company operates in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The risks described below highlight some of the factors that have affected, and in the future could affect our operations. Additional risks we do not yet know of or that we currently think are immaterial may also affect our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected.*

*We depend on long-term government contracts, some of which are only funded on an annual basis. If appropriations for funding are not made in subsequent years of a multiple-year contract, we may not be able to realize all of our anticipated revenue and profits from that project.*

A substantial majority of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal years 2009, 2008 and 2007, approximately 71%, 64% and 61%, respectively, of our revenue was derived

Table of Contents

from contracts with government entities.

Most government contracts are subject to the government's budgetary approval process. Legislatures typically appropriate funds for a given program on a year-by-year basis, even though contract performance may take more than one year. As a result, at the beginning of a program, the related contract is only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent fiscal year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by, among other things, the state of the economy, competing priorities for appropriation, changes in administration or control of legislatures and the timing and amount of tax receipts and the overall level of government expenditures. If appropriations are not made in subsequent years on our government contracts, then we will not realize all of our potential revenue and profit from that contract.

For instance, a significant portion of historical funding for state and local transportation projects has come from the U.S. federal government through its SAFETEA-LU infrastructure funding program and predecessor programs. Approximately 79% of the SAFETEA-LU funding is for highway programs, 18.5% is for transit programs and 2.5% is for other programs such as motor carrier safety, national highway traffic safety and research. A key uncertainty in the outlook for federal transportation funding in the United States is the future viability of the Highway Trust Fund, which has experienced shortfalls due to a decrease in the federal gas tax receipts that fund it. This raises concerns about the future funding structure for federal highway programs, including the Highway Trust Fund, particularly after SAFETEA-LU expires on December 31, 2010.

***Governmental agencies may modify, curtail or terminate our contracts at any time prior to their completion and, if we do not replace them, we may suffer a decline in revenue.***

Most government contracts may be modified, curtailed or terminated by the government either at its discretion or upon the default of the contractor. If the government terminates a contract at its discretion, then we typically are able to recover only costs incurred or committed, settlement expenses and profit on work completed prior to termination, which could prevent us from recognizing all of our potential revenue and profits from that contract. In addition, the U.S. government has announced its intention to scale back outsourcing of services in favor of insourcing jobs to its employees, which could reduce the number of contracts awarded to us. The adoption of similar practices by other government entities could also adversely affect our revenues. If a government terminates a contract due to our default, we could be liable for excess costs incurred by the government in obtaining services from another source.

***Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending. If the economy remains depressed or further weakens, our revenue and profitability could be adversely affected.***

Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending, which may result in clients delaying, curtailing or canceling proposed and existing projects. Due to the economic downturn in the U.S. and international markets and severe tightening of the global credit markets, some of our clients may face considerable budget shortfalls that may limit their overall demand for our services. In addition, our clients may find it more difficult to raise capital in the future to fund their projects due to uncertainty in the municipal and general credit markets. Also, the global demand for commodities has increased raw material costs, which will cause our clients' projects to increase in overall cost and may result in the more rapid depletion of the funds that are available to our clients to spend on projects.



## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Because of an overall weakening economy, our clients may demand more favorable pricing or other terms while their ability to pay our invoices or to pay them in a timely manner may be adversely affected. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects. If the economy remains depressed or further weakens and/or government spending is reduced, our revenue and profitability could be adversely affected.

***Our contracts with governmental agencies are subject to audit, which could result in adjustments to reimbursable contract costs or, if we are charged with wrongdoing, possible temporary or permanent suspension from participating in government programs.***

Our books and records are subject to audit by the various governmental agencies we serve and their representatives. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies. For example, as discussed elsewhere in this report, the U.S. Defense Contract Audit Agency (DCAA) issued a DCAA Form 1 questioning costs incurred during fiscal year 2007 by Combat Support Associates, a consolidated joint venture that includes AECOM Government Services, Inc., in the performance of a U.S. Government contract in Kuwait. If such matter were not resolved in our favor, it could have a material adverse effect on our business. In addition, if one of our subsidiaries is charged with wrongdoing as a result of an audit, that subsidiary, and possibly our company as a whole, could be temporarily suspended or could be prohibited from bidding on and receiving future government contracts for a period of time. Furthermore, as a large government contractor, we are subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not, the results of which could adversely

Table of Contents

impact our business.

***A delay in the completion of the budget process of government agencies could delay procurement of our services and have an adverse effect on our future revenue.***

In years when the U.S. government does not complete its budget process before the end of its fiscal year on September 30, government operations are typically funded pursuant to a continuing resolution that authorizes agencies of the U.S. government to continue to operate, but does not authorize new spending initiatives. When the U.S. government operates under a continuing resolution, government agencies may delay the procurement of services, which could reduce our future revenue. Delays in the budgetary processes of states or other jurisdictions may similarly have adverse effects on our future revenue.

***Our business and operating results could be adversely affected by losses under fixed-price contracts.***

Fixed-price contracts require us to either perform all work under the contract for a specified lump-sum or to perform an estimated number of units of work at an agreed price per unit, with the total payment determined by the actual number of units performed. In fiscal year 2009, approximately 38% of our revenue was recognized under fixed-price contracts. Fixed-price contracts are more frequently used outside of the United States and, thus, the exposures resulting from fixed-price contracts may increase as we increase our business operations outside of the United States. Fixed-price contracts expose us to a number of risks not inherent in cost-plus and time and material contracts, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond our control, failures of subcontractors to perform and economic or other changes that may occur during the contract period. Losses under fixed-price contracts could be substantial and adversely impact our results of operations.

***We conduct a portion of our operations through joint venture entities, over which we may have limited control.***

Approximately 20% of our fiscal year 2009 revenue was derived from our operations through joint ventures or similar partnership arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners, and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Of the joint ventures noted above, approximately 8% of our fiscal year 2009 revenue was derived from our unconsolidated joint ventures where we generally do not have control of the joint venture. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our financial condition and results of operations.

*Misconduct by our employees or consultants or our failure to comply with laws or regulations applicable to our business could cause us to lose customers or lose our ability to contract with government agencies.*

As a government contractor, misconduct, fraud or other improper activities caused by our employees or consultants failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with federal procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, and anti-corruption, export control and other applicable laws or regulations. Our failure to comply with applicable laws or regulations, misconduct by any of our employees or consultants or our failure to make timely and accurate certifications to government agencies regarding misconduct or potential misconduct could subject us to fines and penalties, loss of security clearance, cancellation of contracts and suspension or debarment from contracting with government agencies, any of which may adversely affect our business.

Table of Contents

***Our defined benefit plans have significant deficits that could grow in the future and cause us to incur additional costs.***

We have defined benefit pension plans for employees in the United States, United Kingdom, Australia, Ireland, Canada and Philippines. At June 30, 2010, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately \$115.0 million. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors. Because the current economic environment has resulted in declining investment returns and interest rates, we may be required to make additional cash contributions to our pension plans and recognize further increases in our net pension cost to satisfy our funding requirements. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our results of operations could be materially and adversely affected.

***New legal requirements could adversely affect our operating results.***

Our business and results of operations could be adversely affected by the recent passage of U.S. health care reform legislation and climate change and other environmental legislation and regulations. For example, new legislation or regulations may result in increased direct costs associated with our compliance efforts. Currently, we are assessing the impact that health care reform could have on our employer-sponsored medical plans and that climate change and other environmental legislation and regulations could have on our overall business.

***Our operations worldwide expose us to legal, political and economic risks in different countries as well as currency exchange rate fluctuations that could harm our business and financial results.***

During fiscal year 2009, revenue attributable to our services provided outside of the United States was approximately 54% of our total revenue. There are risks inherent in doing business internationally, including:

- imposition of governmental controls and changes in laws, regulations or policies;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- changes in U.S. and other national government trade policies affecting the markets for our services;

- changes in regulatory practices, tariffs and taxes;
- potential non-compliance with a wide variety of laws and regulations, including anti-corruption, export control and anti-boycott laws and similar non-U.S. laws and regulations;
- changes in labor conditions;
- logistical and communication challenges; and
- currency exchange rate fluctuations, devaluations and other conversion restrictions.

Any of these factors could have a material adverse effect on our business, results of operations or financial condition.

***We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws.***

The U.S. Foreign Corrupt Practices Act (FCPA) and similar worldwide anti-corruption laws, including the recently enacted U.K. Bribery Act of 2010, generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from reckless or criminal acts committed by our employees or agents. Our continued expansion outside the U.S., including in developing countries, could increase the risk of such violations in the future. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations or financial condition.

***We work in international locations where there are high security risks, which could result in harm to our employees and contractors or material costs to us.***

Some of our services are performed in high-risk locations, such as Iraq and Afghanistan, where the country or location is suffering from political, social or economic problems, or war or civil unrest. In those locations where we have employees or operations, we may incur material costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk. Acts of terrorism and threats of armed conflicts in or around various areas in which we

Table of Contents

operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of key employees and contractors or assets.

***Failure to successfully execute our acquisition strategy may inhibit our growth.***

We have grown in part as a result of our acquisitions over the last several years, and we expect continued growth in the form of additional acquisitions and expansion into new markets. If we are unable to pursue suitable acquisition opportunities, as a result of global economic uncertainty or other factors, our growth may be inhibited. We cannot assure you that suitable acquisitions or investment opportunities will continue to be identified or that any of these transactions can be consummated on favorable terms or at all. Any future acquisitions will involve various inherent risks, such as:

- our ability to accurately assess the value, strengths, weaknesses, liabilities and potential profitability of acquisition candidates;
  
- the potential loss of key personnel of an acquired business;
  
- increased burdens on our staff and on our administrative, internal control and operating systems, which may hinder our legal and regulatory compliance activities;
  
- post-acquisition integration challenges; and
  
- post-acquisition deterioration in an acquired business that could result in lower or negative earnings contribution and/or goodwill impairment charges.

Furthermore, during the acquisition process and thereafter, our management may need to assume significant transaction-related responsibilities, which may cause them to divert their attention from our existing operations. If our management is unable to successfully integrate acquired companies or implement our growth strategy, our operating results could be harmed. Moreover, we cannot assure you that we will continue to successfully expand or that growth or expansion will result in profitability.

***Our ability to grow and to compete in our industry will be harmed if we do not retain the continued services of our key technical and management personnel and identify, hire and retain additional qualified personnel.***

There is strong competition for qualified technical and management personnel in the sectors in which we compete. We may not be able to continue to attract and retain qualified technical and management personnel, such as engineers, architects and project managers, who are necessary for the development of our business or to replace qualified personnel. Our planned growth may place increased demands on our resources and will likely require the addition of technical and management personnel and the development of additional expertise by existing personnel. Also, some of our personnel hold security clearances required to obtain government projects; if we were to lose some or all of these personnel, they would be difficult to replace. Loss of the services of, or failure to recruit, key technical and management personnel could limit our ability to successfully complete existing projects and compete for new projects.

***Our revenue and growth prospects may be harmed if we or our employees are unable to obtain the security clearances or other qualifications we and they need to perform services for our customers.***

A number of government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue or profit anticipated from such contract.

***Our industry is highly competitive and we may be unable to compete effectively, which could result in reduced revenue, profitability and market share.***

We are engaged in a highly competitive business. The extent of competition varies with the types of services provided and the locations of the projects. Generally, we compete on the bases of technical and management capability, personnel qualifications and availability, geographic presence, experience and price. Increased competition may result in our inability to win bids for future projects and loss of revenue, profitability and market share.

Table of Contents

***If we extend a significant portion of our credit to clients in a specific geographic area or industry, we may experience disproportionately high levels of default if those clients are adversely affected by factors particular to their geographic area or industry.***

Our clients include public and private entities that have been, and may continue to be, negatively impacted by the changing landscape in the global economy. While outside of the U.S. federal government no one client accounts for over 10% of our revenue, we face collection risk as a normal part of our business where we perform services and subsequently bill our clients for such services. In the event that we have concentrated credit risk from clients in a specific geographic area or industry, continuing negative trends or a worsening in the financial condition of that specific geographic area or industry could make us susceptible to disproportionately high levels of default by those clients. Such defaults could materially adversely impact our revenues and our results of operations.

***Our services expose us to significant risks of liability and our insurance policies may not provide adequate coverage.***

Our services involve significant risks of professional and other liabilities that may substantially exceed the fees that we derive from our services. In addition, we sometimes contractually assume liability under indemnification agreements. We cannot predict the magnitude of potential liabilities from the operation of our business.

Our professional liability policies cover only claims made during the term of the policy. Additionally, our insurance policies may not protect us against potential liability due to various exclusions in the policies and self-insured retention amounts. Partially or completely uninsured claims, if successful and of significant magnitude, could have a material adverse affect on our business.

***Our backlog of uncompleted projects under contract is subject to unexpected adjustments and cancellations and thus, may not accurately reflect future revenue and profits.***

At June 30, 2010, our contracted backlog was approximately \$5.5 billion and our awarded backlog was approximately \$4.2 billion for a total backlog of \$9.7 billion. Our contracted backlog includes revenue we expect to record in the future from signed contracts, and in the case of a public sector client, where the project has been funded. Our awarded backlog includes revenue we expect to record in the future where we have been awarded the work, but the contractual agreement has not yet been signed.

We cannot guarantee that future revenue will be realized from either category of backlog or, if realized, will result in profits. Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time projects are delayed, scaled back or cancelled. These types of backlog reductions adversely affect the revenue and profits that we ultimately receive from contracts reflected in our backlog.

***We have submitted claims to clients for work we performed beyond the initial scope of some of our contracts. If these clients do not approve these claims, our results of operations could be adversely impacted.***



We typically have pending claims submitted under some of our contracts for payment of work performed beyond the initial contractual requirements for which we have already recorded revenue. In general, we cannot guarantee that such claims will be approved in whole, in part, or at all. If these claims are not approved, our revenue may be reduced in future periods.

*In conducting our business, we depend on other contractors and subcontractors. If these parties fail to satisfy their obligations to us or other parties, or if we are unable to maintain these relationships, our revenue, profitability and growth prospects could be adversely affected.*

We depend on contractors and subcontractors in conducting our business. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, or our failure to extend existing task orders or issue new task orders under a subcontract. In addition, if any of our subcontractors fail to deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services, our ability to fulfill our obligations as a prime contractor may be jeopardized and/or we could be held responsible for such failures.

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. Our future revenue and growth prospects could be adversely affected if other contractors eliminate or reduce their subcontracts or joint venture relationships with us, or if a government agency terminates or reduces these other contractors' programs, does not award them new contracts or refuses to pay under a contract. In addition, due to pay when paid provisions that are common in subcontracts in certain countries, including the U.S., we could experience delays in receiving payment if the prime contractor experiences payment delays.

Table of Contents

*Our quarterly operating results may fluctuate significantly.*

Our quarterly revenue, expenses and operating results may fluctuate significantly because of a number of factors, including:

- the spending cycle of our public sector clients;
- employee hiring and utilization rates;
- the number and significance of client engagements commenced and completed during a quarter;
- the ability of clients to terminate engagements without penalties;
- the ability of our project managers to accurately estimate the percentage of the project completed;
- delays incurred as a result of weather conditions;
- delays incurred in connection with an engagement;
- the size and scope of engagements;
- the timing and magnitude of expenses incurred for, or savings realized from, corporate initiatives;
- changes in foreign currency rates;
- the seasonality of our business;

- the impairment of goodwill or other intangible assets; and
  
- general economic and political conditions.

Variations in any of these factors could cause significant fluctuations in our operating results from quarter to quarter.

***If we are unable to continue to access credit on acceptable terms, our business may be adversely affected.***

The state of the global credit markets could make it more difficult for us to access funds, refinance our existing indebtedness, enter into agreements for new indebtedness, replace our existing credit agreement on or before its expiration in 2012 or obtain funding through the issuance of our securities. We use credit facilities to support our working capital and acquisition needs. There is no guarantee that we can continue to renew our credit facility on terms as favorable as those in our existing credit facility, and if we are unable to do so, our costs of borrowing and our business may be adversely affected.

***Systems and information technology interruption could adversely impact our ability to operate.***

We rely heavily on computer, information and communications technology and related systems in order to properly operate. From time to time, we experience occasional system interruptions and delays. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure and take other steps to improve the efficiency of and protect our systems, systems operation could be interrupted or delayed. In addition, our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications failures, acts of war or terrorism, computer viruses, physical or electronic security breaches and similar events or disruptions. Any of these or other events could cause system interruption, delays and loss of critical data, or delay or prevent operations, and adversely affect our operating results.

***Failure to adequately protect, maintain, or enforce our rights in our intellectual property may adversely limit our competitive position.***

Our success depends, in part, upon our ability to protect our intellectual property. We rely on a combination of intellectual property policies and other contractual arrangements to protect much of our intellectual property where we do not believe that trademark, patent or copyright protection is appropriate or obtainable. Trade secrets are generally difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information and/or the infringement of our patents and copyrights. Further, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to adequately protect, maintain, or enforce our intellectual property rights may adversely limit our competitive position.

***Our charter documents contain provisions that may delay, defer or prevent a change of control.***

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. These provisions include the following:

- division of our Board of Directors into three classes, with each class serving a staggered three-year term;

Table of Contents

- removal of directors for cause only;
- ability of our Board of Directors to authorize the issuance of preferred stock in series without stockholder approval;
- two-thirds stockholder vote requirement to approve specified business combinations, which include a sale of substantially all of our assets;
- vesting of exclusive authority in our Board of Directors to determine the size of the board (subject to limited exceptions) and to fill vacancies;
- advance notice requirements for stockholder proposals and nominations for election to our Board of Directors; and
- prohibitions on our stockholders from acting by written consent and limitations on calling special meetings.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three-month period ended June 30, 2010, we issued the following securities that were not registered under the Securities Act of 1933, as amended (the Securities Act):

44,483 shares of our common stock and shares exchangeable into our common stock on a 1-to-1 basis to the shareholders of privately-held companies in connection with our acquisition of the companies.

We issued the securities identified above in reliance upon Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering or Regulation S promulgated under the Securities Act as sales occurring outside of the United States.

**Item 6. Exhibits**

The following documents are filed as Exhibits to the Report:

## Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

<b>Exhibit Numbers</b>	<b>Description</b>
10.1	Note Purchase Agreement, dated June 28, 2010, by and among AECOM Technology Corporation and the Purchasers identified therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 1, 2010).
10.2	Second Amendment to Second Amended and Restated Credit Agreement, dated as of June 25, 2010, by and among AECOM Technology Corporation, the lenders party thereto, Bank of America, N.A., as administrative agent and swing line lender and Union Bank of California, N.A., Wells Fargo Bank, N.A., BMO Capital Markets Financing, Inc. and BNP Paribas as syndication agents (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 1, 2010).
10.3	Third Amendment to Term Credit Agreement, dated as of June 25, 2010, by and among Maunsell HK Holdings, Ltd., Faber Maunsell Limited, W.E. Bassett & Partners Pty. Ltd., Maunsell Group Limited, and Maunsell Australia Pty Ltd., as borrowers, the lenders party thereto, Union Bank, N.A., as the administrative agent, and Bank of Montreal, acting under its trade name BMO Capital Markets, as syndication agent (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 1, 2010).
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AECOM TECHNOLOGY CORPORATION

Date: August 6, 2010

By:

/s/ MICHAEL S. BURKE

Michael S. Burke

*Executive Vice President, Chief Financial Officer*