

AECOM TECHNOLOGY CORP
Form 10-Q
February 09, 2011
[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 December 31, 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 Smaller reporting company
(Do not check if a 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 February 1, 2011, 118,727,138 shares of the registrant's common stock were outstanding.

Table of Contents

AECOM TECHNOLOGY CORPORATION

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	1
Item 1.	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of December 31, 2010 (unaudited) and September 30, 2010</u>	1
	<u>Consolidated Statements of Income for the Three Months Ended December 31, 2010 (unaudited) and December 31, 2009 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended December 31, 2010 (unaudited) and December 31, 2009 (unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2010 (unaudited) and December 31, 2009 (unaudited)</u>	4
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4.	<u>Controls and Procedures</u>	28
<u>PART II.</u>	<u>OTHER INFORMATION</u>	29
Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 6.	<u>Exhibits</u>	36
<u>SIGNATURES</u>		37

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****AECOM Technology Corporation
Consolidated Balance Sheets**

(in thousands, except share data)

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 349,120	\$ 570,521
Cash in consolidated joint ventures	72,118	42,336
Total cash and cash equivalents	421,238	612,857
Accounts receivable net	2,315,592	2,170,188
Prepaid expenses and other current assets	126,608	157,840
Income taxes receivable	120,826	
Deferred tax assets net		5,614
TOTAL CURRENT ASSETS	2,984,264	2,946,499
PROPERTY AND EQUIPMENT NET	282,436	258,784
DEFERRED TAX ASSETS NET	40,319	105,030
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	69,674	53,235
GOODWILL	2,007,684	1,690,386
INTANGIBLE ASSETS NET	137,863	108,645
OTHER NON-CURRENT ASSETS	97,800	80,330
TOTAL ASSETS	\$ 5,620,040	\$ 5,242,909
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$ 6,143	\$ 2,087
Accounts payable	553,619	589,076
Accrued expenses and other current liabilities	819,144	902,824
Billings in excess of costs on uncompleted contracts	358,262	341,959
Income taxes payable		1,960
Deferred tax liability net	5,147	
Current portion of long-term debt	12,750	14,354
TOTAL CURRENT LIABILITIES	1,755,065	1,852,260
OTHER LONG-TERM LIABILITIES	387,988	337,494
LONG-TERM DEBT	1,187,591	914,686
TOTAL LIABILITIES	3,330,644	3,104,440
COMMITMENTS AND CONTINGENCIES (Note 14)		
AECOM STOCKHOLDERS EQUITY:		
Convertible preferred stock authorized, 2,500,000; issued and outstanding, 0 and 2,305 shares as of December 31 and September 30, 2010; respectively, \$100.00 liquidation preference		231

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

value			
Common stock authorized, 150,000,000 shares of \$0.01 par value; issued and outstanding, 116,679,645 and 115,316,783 as of December 31 and September 30, 2010, respectively		1,167	1,153
Preferred stock, Class C authorized, 200 shares; issued and outstanding, 0 and 52 shares as of December 31 and September 30, 2010; no par value, \$1.00 liquidation preference value			
Preferred stock, Class E authorized, 20 shares; issued and outstanding, 4 and 4 shares as of December 31 and September 30, 2010; no par value, \$1.00 liquidation preference value			
Additional paid-in capital		1,662,764	1,585,044
Accumulated other comprehensive loss		(135,285)	(147,521)
Retained earnings		707,971	651,105
TOTAL AECOM STOCKHOLDERS EQUITY		2,236,617	2,090,012
Noncontrolling interests		52,779	48,457
TOTAL STOCKHOLDERS EQUITY		2,289,396	2,138,469
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	5,620,040	\$ 5,242,909

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	
	December 31, 2010	December 31, 2009
Revenue	\$ 1,936,183	\$ 1,480,784
Cost of revenue	1,830,848	1,397,807
Gross profit	105,335	82,977
Equity in earnings of joint ventures	8,097	4,378
General and administrative expenses	23,262	21,865
Income from operations	90,170	65,490
Other income	2,288	1,704
Interest expense, net	(9,872)	(975)
Income from continuing operations before income tax expense	82,586	66,219
Income tax expense	20,503	16,465
Income from continuing operations	62,083	49,754
Discontinued operations, net of tax		113
Net income	62,083	49,867
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(5,215)	(4,085)
Net income attributable to AECOM	\$ 56,868	\$ 45,782
Net income allocation:		
Preferred stock dividend	\$ 2	\$ 35
Net income available for common stockholders	56,866	45,747
Net income attributable to AECOM	\$ 56,868	\$ 45,782
Net income attributable to AECOM per share:		
Basic and diluted		
Continuing operations	\$ 0.48	\$ 0.40
Discontinued operations		
	\$ 0.48	\$ 0.40
Weighted average shares outstanding:		
Basic	118,001	113,153
Diluted	119,115	114,498

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM Technology Corporation
Consolidated Statements of Comprehensive Income

(unaudited in thousands)

	Three Months Ended	
	December 31, 2010	December 31, 2009
Net income	\$ 62,083	\$ 49,867
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	11,538	12,704
Swap valuation		400
Pension adjustments	698	870
Comprehensive income, net of tax	\$ 74,319	\$ 63,841
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax	(5,215)	(4,085)
Comprehensive income attributable to AECOM, net of tax	\$ 69,104	\$ 59,756

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM Technology Corporation
Condensed Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Three Months Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 62,083	\$ 49,867
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	29,843	22,340
Equity in earnings of unconsolidated joint ventures	(8,097)	(4,378)
Distribution of earnings from unconsolidated joint ventures	7,682	3,240
Non-cash stock compensation	8,030	8,813
Excess tax benefit from share-based payment	(60,051)	(768)
Foreign currency translation	(3,069)	2,425
Other non-cash expense	749	
Changes in operating assets and liabilities, net of effects of acquisitions:		
Settlement of deferred compensation plan liability	(89,688)	
Accounts receivable	(10,148)	(16,700)
Prepaid expenses and other assets	4,177	(10,575)
Accounts payable	(47,994)	(51,727)
Accrued expenses and other current liabilities	(54,766)	(57,912)
Billings in excess of costs on uncompleted contracts	9,562	23,794
Other long-term liabilities	(25,945)	2,147
Income taxes payable	(1,713)	(912)
Net cash used in operating activities from continuing operations	(179,345)	(30,346)
Net cash used in operating activities from discontinued operations		(4,227)
Net cash used in operating activities	(179,345)	(34,573)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for business acquisitions, net of cash acquired	(298,731)	(39,600)
Proceeds from disposal of business		25,799
Net investment in unconsolidated joint ventures	(18,897)	4,768
Purchases of investment securities/funds	(16,595)	
Payments for capital expenditures	(16,019)	(14,520)
Net cash used in investing activities	(350,242)	(23,553)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	582,009	19,246
Repayments of borrowings under credit agreements	(311,697)	(4,291)
Proceeds from loan on deferred compensation plan investments	59,324	
Proceeds from issuance of common stock	6,081	2,876
Proceeds from exercise of stock options	2,902	1,191
Payments to repurchase common stock	(63,461)	(1,222)
Excess tax benefit from share-based payment	60,051	768
Net distributions to noncontrolling interests	(1,062)	(973)
Net cash provided by financing activities	334,147	17,595
EFFECT OF EXCHANGE RATE CHANGES ON CASH	3,821	2,703
NET DECREASE IN CASH AND CASH EQUIVALENTS	(191,619)	(37,828)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	612,857	290,777

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	421,238	\$	252,949
NON-CASH INVESTING AND FINANCING ACTIVITY				
Common stock issued in acquisitions	\$	58,868	\$	33,500

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, 2010. 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 three months ended December 31, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2011.

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.

2. New Accounting Pronouncements and Changes in Accounting

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to fair value measurements. The Company adopted the guidance for the quarter ended March 31, 2010, except for the portion of the guidance that requires the disclosure of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). This guidance becomes effective for the Company in its fiscal year beginning October 1, 2011. The Company does not believe that the adoption of the separate disclosures related to Level 3 measurements in its fiscal year beginning October 1, 2011 will have a material impact on its consolidated financial statements.

On October 1, 2010, the Company adopted guidance issued by the FASB on revenue recognition. The new guidance provides another alternative for determining the selling price of deliverables, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, and requires companies to allocate arrangement consideration to separate deliverables using the relative

selling price method. The adoption of the guidance did not have a material effect on the Company's consolidated financial statements.

On October 1, 2010, the Company also adopted guidance issued by the FASB on the consolidation of variable interest entities. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of whether the Company has the power to direct the activities over such entities, and additional disclosures for variable interests. Adoption of the new guidance did not have a material impact on the Company's consolidated financial statements, see Note 6.

3. Business Acquisitions, Goodwill and Intangible Assets

The Company completed five business acquisitions during the quarter ended December 31, 2010. Total consideration related to these acquisitions consisted of \$298.7 million in cash, net of cash acquired, and \$58.9 million in Company stock. Business acquisitions completed during the quarter ended December 31, 2010 did not meet the quantitative thresholds to require pro forma disclosures of operating results either individually or in the aggregate based on the Company's consolidated assets and income. Significant acquisitions during the quarter ended December 31, 2010 included four separate global cost and project management consultancy firms, that operated under the Davis Langdon name, including businesses in Europe and Middle East, Australia and New Zealand, South Africa, and North America. Each of the four acquisitions were separately negotiated, executed by separate purchase agreements, with no one acquisition contingent upon the other, and the four businesses, although operating as part of a Swiss Verein, under which they shared certain naming and marketing rights, were not under common control or management. Business acquisitions during the quarter ended December 31, 2010 also included RSW, Inc., an international engineering firm based in Montreal, Quebec, Canada.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Table of Contents

The changes in the carrying value of goodwill by reporting segment for the three months ended December 31, 2010 and 2009 were as follows:

	September 30, 2010	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Acquired	December 31, 2010
Reporting Unit					
Professional Technical Services	\$ 1,355.0	\$ 4.9	\$ 6.3	\$ 302.7	\$ 1,668.9
Management Support Services	335.4	3.4			338.8
Total	\$ 1,690.4	\$ 8.3	\$ 6.3	\$ 302.7	\$ 2,007.7

	September 30, 2009	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Acquired	December 31, 2009
Reporting Unit					
Professional Technical Services	\$ 1,060.1	\$ (1.9)	\$ 4.8	\$ 46.1	\$ 1,109.1
Management Support Services	2.8			21.8	24.6
Total	\$ 1,062.9	\$ (1.9)	\$ 4.8	\$ 67.9	\$ 1,133.7

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 31, 2010 and September 30, 2010, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	December 31, 2010			September 30, 2010			Amortization
	Gross Amount	Accumulated Amortization	Intangible Assets, Net (in millions)	Gross Amount	Accumulated Amortization	Intangible Assets, Net	Period (years)
Backlog	\$ 98.5	\$ (70.0)	\$ 28.5	\$ 80.7	\$ (65.5)	\$ 15.2	1 - 5
Customer relationships	134.8	(28.5)	106.3	114.0	(24.6)	89.4	10
Trademark / tradename	4.0	(0.9)	3.1	4.2	(0.2)	4.0	2
Total	\$ 237.3	\$ (99.4)	\$ 137.9	\$ 198.9	\$ (90.3)	\$ 108.6	

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 has yet to complete its final valuation of intangible assets for certain recent acquisitions. During the quarter ended December 31, 2010, the Company completed its final valuation of identifiable intangible assets for Tishman Construction Corporation (Tishman) and McNeil Technologies, Inc. (McNeil). These final valuations were not materially different from previously recorded estimates. The Company is in the process of finalizing deferred taxes and fair values relating to projects and leases for recent acquisitions including Tishman and McNeil. Post-acquisition adjustments primarily relate to project related liabilities.

Amortization expense of acquired intangible assets included within cost of revenue was \$9.1 million and \$7.1 million for the three months ended December 31, 2010 and 2009, respectively. The following table presents estimated amortization expense of existing intangible assets for the

remainder of fiscal 2011 and for the succeeding years:

Fiscal Year	(in millions)	
2011 (nine months remaining)	\$	25.6
2012		24.2
2013		16.1
2014		16.0
2015		14.7
Thereafter		41.3
Total	\$	137.9

In addition to the above, amortization expense of acquired intangible assets included within equity in earnings of joint ventures was \$2.2 million for the three months ended December 31, 2010. This amortization expense is not expected to be significant for the remainder of fiscal 2011.

4. Restructuring Costs

In fiscal 2009, in connection with the Earth Tech acquisition, the Company initiated plans for workforce reductions and facility closures. In fiscal 2010, the Company initiated a restructuring plan for its United Kingdom operations to reduce ongoing overhead costs and improve operating efficiencies. Restructuring costs are aggregated in cost of revenue within its consolidated statements of income. The accrued facility costs are expected to be paid over the next four years.

Table of Contents

The following table presents a reconciliation of the restructuring reserve balance in the Company's Professional Technical Services segment from October 1, 2010 to December 31, 2010.

	Three Months Ended December 31, 2010		
	Severance Costs	Facility Costs (in millions)	Total
Accrual, beginning of the period	\$ 1.3	\$ 15.8	\$ 17.1
Accrued and other adjustments during the period	0.2		0.2
Paid during the period	(1.0)	(2.7)	(3.7)
Accrual, end of the period	\$ 0.5	\$ 13.1	\$ 13.6

5. Accounts Receivable Net

Net accounts receivable consisted of the following as of December 31, 2010 and September 30, 2010:

	December 31, 2010	September 30, 2010
	(in millions)	
Billed	\$ 1,312.8	\$ 1,254.8
Unbilled	1,019.5	956.3
Contract retentions	88.6	57.9
Total accounts receivable gross	2,420.9	2,269.0
Allowance for doubtful accounts	(105.3)	(98.8)
Total accounts receivable net	\$ 2,315.6	\$ 2,170.2

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 December 31, 2010 and September 30, 2010 are expected to be billed and collected within twelve months. 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 a non-specific 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 December 31, 2010 or September 30, 2010.

6. Joint Ventures and Variable Interest Entities

The Company's joint ventures provide architecture, engineering, program management, construction management and operations and maintenance services. Joint ventures, the combination of two or more partners, are generally formed for a specific project. Management of the joint venture is typically controlled by a joint venture executive committee, comprised of a representative from the joint venture partners. The joint venture executive committee normally provides management oversight and controls decisions which could have significant impact on the joint venture's economics.

Some of the Company's joint ventures have no employees and minimal operating expenses. For these joint ventures, the Company's employees perform work for the joint venture, which is then billed to a third-party customer by the joint venture. These joint ventures function as pass through entities to bill the third-party customer. The Company records its share of the services performed and the costs associated with these services, in the Company's results of operations since it does not have risk related to services provided by the other joint venture partner(s). For certain of these joint ventures where a fee is added by an unconsolidated joint venture to client billings, the Company's portion of that fee is recorded in equity in earnings of joint ventures.

The Company also has joint ventures that have their own employees and operating expenses, and to which the Company generally makes a capital contribution. The Company accounts for these joint ventures either as consolidated entities or equity method investments based on the criteria further discussed below.

Table of Contents*Adoption of new consolidation standard*

Effective October 1, 2010, the Company adopted guidance issued by the FASB on the consolidation of variable interest entities (VIEs). The new consolidation standard requires companies to utilize a qualitative approach to determine whether it is the primary beneficiary of a VIE. The process for identifying the primary beneficiary of a VIE requires consideration of the factors which provide a party the power to direct the activities that most significantly impact the joint ventures' economic performance, including powers granted to the joint venture's program manager, powers contained in the joint venture governing board, and to a certain extent, a company's economic interest in the joint venture. The Company analyzed its joint ventures and effective October 1, 2010, prospectively classified them according to the new consolidation standard as either:

- a VIE that must be consolidated because the Company is the primary beneficiary or the joint venture is not a VIE; however, the Company holds the majority voting interest with no significant participative rights available to the other partners; or
- a VIE that does not require consolidation because the Company is not the primary beneficiary or the joint venture is not a VIE and the Company does not hold the majority voting interest.

Once it was determined that the Company has the power to direct the activities that most significantly impact the joint ventures' economic performance, the Company assessed whether or not it has the obligation to absorb losses or rights to receive benefits from the entities that could potentially be significant to the entities.

The adoption of the new consolidation standard did not result in the consolidation or de-consolidation of any joint ventures that were material either individually or in the aggregate to the consolidated financial statements of the Company. The Company has not provided financial or other support during the periods presented to any of its VIEs that it was not previously contractually required to provide. Contractually required support provided to the Company's joint ventures is further discussed in Note 14.

Summary of unaudited financial information of the consolidated joint ventures is as follows:

	December 31, 2010	September 30, 2010
	(in millions)	
Current assets	\$ 245.3	\$ 242.2
Non-current assets	3.9	17.4
Total assets	\$ 249.2	\$ 259.6
Current liabilities	\$ 18.2	\$ 46.8
Non-current liabilities	39.3	33.4
Total liabilities	57.5	80.2
Total AECOM equity	138.9	130.9

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Noncontrolling interests		52.8		48.5
Total owners' equity		191.7		179.4
Total liabilities and owners' equity	\$	249.2	\$	259.6

Total revenues of the consolidated joint ventures were \$216.7 million and \$184.4 million for the three months ended December 31, 2010 and December 31, 2009, respectively. The assets of the Company's consolidated joint ventures are restricted for use only by the particular joint venture and are not available for the general operations of the Company.

Table of Contents

Summary of unaudited financial information of the unconsolidated joint ventures is as follows:

	December 31, 2010		September 30, 2010	
	(in millions)			
Current assets	\$	458.7	\$	393.7
Non-current assets		34.7		6.1
Total assets	\$	493.4	\$	399.8
Current liabilities	\$	333.7	\$	319.8
Non-current liabilities		4.9		4.5
Total liabilities		338.6		324.3
Joint ventures' equity		154.8		75.5
Total liabilities and joint ventures' equity	\$	493.4	\$	399.8
AECOM's investment in joint ventures	\$	69.7	\$	53.2

	December 31, 2010		December 31, 2009	
	(in millions)			
Unconsolidated joint ventures:				
Total revenues	\$	440.0	\$	389.2
Cost of revenues		415.1		353.1
AECOM's equity in earnings of unconsolidated joint ventures:				
Pass through joint ventures	\$	0.9	\$	1.0
Other joint ventures		7.2		3.4
Total	\$	8.1	\$	4.4

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 months ended December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	U.S.	Int'l	U.S.	Int'l
	(in millions)			
Components of net periodic (benefit) cost:				
Service costs	\$	\$	1.1	\$
Interest cost on projected benefit obligation	2.0	6.6	2.0	5.5
Expected return on plan assets	(2.0)	(6.7)	(2.0)	(6.2)
Amortization of net loss	0.6	0.7	0.3	0.6

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Curtailed (gain) / loss recognized					(1.9)		
Net periodic (benefit) cost	\$	0.6	\$	1.7	\$	(1.6)	\$ 1.2

The total amounts of employer contributions paid for the three months ended December 31, 2010 were \$14.1 million for U.S. plans and \$4.0 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2011 are \$3.5 million for U.S. plans and \$14.5 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 \$185.1 million and \$164.2 million as of December 31, 2010 and September 30, 2010, respectively.

Table of Contents**8. Debt**

Debt consisted of the following:

	December 31, 2010	September 30, 2010
	(in millions)	
Unsecured term credit agreements	\$ 607.4	\$ 609.1
Unsecured senior notes	251.3	250.5
Unsecured revolving credit facility	299.0	26.5
Secured notes	25.8	25.9
Other debt	23.0	19.1
Total debt	1,206.5	931.1
Less: Current portion of debt and short-term borrowings	(18.9)	(16.4)
Long-term debt, less current portion	\$ 1,187.6	\$ 914.7

The following table presents, in millions, scheduled maturities of our debt:

Fiscal Year	
2011 (nine months remaining)	\$ 18.0
2012	339.7
2013	122.2
2014	451.4
2015	1.4
Thereafter	273.8
Total	\$ 1,206.5

Unsecured Term Credit Agreements

In September 2010, the Company entered into an unsecured term credit agreement with a syndicate of banks to support its working capital and acquisition needs. Pursuant to the credit agreement, the Company borrowed \$600 million in term loans and may borrow up to an additional \$100 million in term loans upon request by the Company subject to certain conditions. The loans under the credit agreement bear interest, at the Company's option, at either the base rate (as defined in the credit agreement) plus an applicable margin or the Eurodollar rate (as defined in the credit agreement) plus an applicable margin. The applicable margin for base rate loans is a range of 1.0% to 2.25% and the applicable margin for Eurodollar rate loans is a range of 2.0% to 3.25%, both based on the debt-to-earnings leverage ratio of the Company at the end of each fiscal quarter. For the quarter ended December 31, 2010, the average interest rate was 2.8%. Payments of the initial principal amount outstanding under the credit agreement are required on a quarterly basis beginning in September 2012. Any remaining principal of the loans under the credit agreement is due no later than September 2014.

In September 2006, through certain wholly-owned subsidiaries, the Company 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, which provided for a limited time opportunity to repatriate foreign earnings to the U.S. at a 5.25% tax rate. The agreement provided for a \$65.0 million, five-year term loan among four

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

subsidiary borrowers and one subsidiary guarantor. In order to obtain favorable pricing, the Company also provided a parent company guarantee. In June 2010, certain of our wholly-owned subsidiaries entered into an amendment to this credit agreement to, among other things, permit the Company to enter into the note purchase agreement for a private placement of senior unsecured notes (as described below) and permit the subsidiaries to enter into subsidiary guarantees in connection therewith. The amounts outstanding on this credit agreement were \$7.4 million and \$9.1 million at December 31, 2010 and September 30, 2010, respectively.

Unsecured Senior Notes

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. The outstanding accreted balance of Series B Notes was \$76.3 million at December 31, 2010. The Company's obligations under the Notes are guaranteed by certain subsidiaries of the Company pursuant to one or more subsidiary guarantees.

Table of Contents

Unsecured Revolving Credit Facility

The Company has an unsecured revolving credit facility with a syndicate of banks to support its working capital and acquisition needs. The borrowing capacity under the unsecured revolving credit facility is \$600 million, and pursuant to the terms of the associated credit agreement, has an expiration date of August 2012. The Company may also, at its option, request an increase in the commitments under the facility up to a total of \$750 million, subject to lender approval. The Company may borrow, at its 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 December 31, 2010 and September 30, 2010, \$299.0 million and \$26.5 million were outstanding under the credit facility, respectively. At December 31, 2010 and September 30, 2010, outstanding standby letters of credit totaled \$31.8 million and \$31.5 million, respectively, under the credit facility. The Company could have drawn upon the remaining \$269.2 million available under the credit facility.

Covenants and Restrictions

All of the Company's debt agreements discussed above contain certain negative covenants relating to the Company's leverage ratio, which is based on outstanding borrowings (including financial letters of credit) and earnings before interest, taxes, depreciation, and amortization. The Company's Unsecured Revolving Credit Facility and Unsecured Term Credit Agreements also contain certain covenants that limit the Company's ability to, among other things, (i) issue financial and commercial standby letters of credit, (ii) issue performance guarantees, (iii) incur indebtedness and contingent obligations, and (iv) pay dividends or make certain other restricted payments or investments. The Company's Unsecured Senior Notes contain certain covenants that restrict indebtedness and require the Company to maintain a minimum net worth. Should the Company fail to comply with these covenants, all or a portion of its borrowings under the Unsecured Senior Notes and Unsecured Term Credit Agreements could become immediately payable and its Unsecured Revolving Credit Facility could be terminated. At December 31, 2010, the Company was in compliance with all such covenants.

Interest Rate Swaps

The Company previously had interest rate swap agreements with financial institutions to fix the variable interest rates on portions of debt outstanding under the Company's revolving credit facility which expired in August 2010. The Company applied cash flow hedge accounting for the interest rate swap agreements. Accordingly, the derivatives were recorded at fair value as assets or liabilities and the effective portion of changes in the fair value of the derivative, as measured quarterly, was reported in other comprehensive income.

The Company's average effective interest rate on borrowings under the revolving credit facility, including the effects of the swaps, during the three months ended December 31, 2010 and 2009 was 1.2% and 3.6%, respectively.

Secured Notes

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Secured notes are notes payable to a bank, collateralized by real properties, which were 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 and obligations under capital leases. In addition to the unsecured revolving credit facility discussed above, at December 31, 2010, the Company had \$248.4 million of unsecured credit facilities primarily used to cover periodic overdrafts and letters of credit, of which, \$158.1 million was utilized for outstanding letters of credit.

9. Fair Value Measurements

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it would transact, and the Company considers assumptions that market participants would use when pricing the asset or liability. It measures certain financial and nonfinancial assets and liabilities at fair value on a recurring and nonrecurring basis.

Table of Contents

Nonfinancial assets and liabilities include items such as goodwill and long lived assets that are measured at fair value resulting from impairment, if deemed necessary. During the three months ended December 31, 2010 and December 31, 2009, 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.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

- *Level 1* Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- *Level 2* Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities.

- *Level 3* Unobservable inputs that are significant to the measurement of the fair value of assets or liabilities.

There were no significant transfers between any of the levels of the fair value hierarchy during the three months ended December 31, 2010 and December 31, 2009.

The following tables summarize the Company's non-pension financial assets and liabilities measured at fair value on a recurring basis (at least annually) in millions:

	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. government security (1)	\$ 10.2	\$ 10.2	\$
Corporate notes and bonds (1)	2.9	2.9	
Deferred compensation plan assets (2)			
Total assets	\$ 13.1	\$ 13.1	\$
Deferred compensation plan liabilities (2)	\$ 0.9	\$	0.9
Total liabilities	\$ 0.9	\$	0.9

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. government security (1)	\$ 9.2	\$ 9.2	
Corporate notes and bonds (1)	2.3	2.3	
Deferred compensation plan assets (2)			
Total assets	\$ 11.5	\$ 11.5	
Deferred compensation plan liabilities (2)	\$ 88.8		\$ 88.8
Total liabilities	\$ 88.8		\$ 88.8

(1) Corporate bonds and US government bonds are valued using quoted market prices.

(2) For additional information about the Company's deferred compensation plan, refer to Note 18 to the Consolidated Financial Statements in the Company's 2010 Form 10-K and Note 13 herein.

10. Share-based Payment

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.

Table of Contents

The fair value of options granted during the three months ended December 31, 2010 and 2009 were determined using the following weighted average assumptions:

	Three Months Ended December 31,	
	2010	2009
Dividend yield		
Expected volatility	38.6%	39.9%
Risk-free interest rate	1.5%	1.6%
Term (in years)	4.5	4.5

For the three months ended December 31, 2010 and 2009, compensation expense recognized related to stock options as a result of the fair value method was \$1.1 million and \$1.3 million, respectively. Unrecognized compensation expense relating to stock options outstanding as of December 31, and September 30, 2010 was \$6.6 million and \$4.7 million, respectively, to be recognized on a straight-line basis over the awards respective vesting periods, which are generally three years.

Stock option activity for the three months ended December 31 was as follows:

	2010		2009	
	Shares of stock under options (in millions)	Weighted average exercise price	Shares of stock under options (in millions)	Weighted average exercise price
Outstanding at September 30	3.1	\$ 19.09	3.8	\$ 16.36
Options granted	0.4	27.54	0.3	24.45
Options exercised	(0.3)	11.39	(0.1)	9.97
Options forfeited or expired		22.23		10.59
Outstanding at December 31	3.2	20.64	4.0	17.24
Vested and expected to vest in the future as of December 31	3.1	\$ 20.51	3.9	\$ 16.93

The weighted average grant-date fair value of stock options granted during the three months ended December 31, 2010 and 2009 was \$9.39 and \$8.60, respectively.

The Company grants stock units under the Performance Earnings Program (PEP), whereby units are earned and issued dependent upon meeting established cumulative performance objectives over a three-year period. The Company recognized compensation expense relating to the PEP of \$4.4 million and \$5.3 million during the three months ended December 31, 2010 and 2009, respectively. Additionally, the Company issues restricted stock units which are earned based on service conditions, resulting in compensation expense of \$2.5 million and \$1.8 million during the three months ended December 31, 2010 and 2009, respectively. Unrecognized compensation expense related to PEP units and restricted stock units outstanding was \$38.0 million and \$31.5 million as of December 31, 2010 and \$27.8 million and \$16.0 million as of September 30, 2010, respectively, to be recognized on a straight-line basis over the awards respective vesting periods which are generally three years.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Cash flows attributable to tax benefits resulting from tax deductions in excess of compensation cost recognized for those stock options (excess tax benefits) is classified as financing cash flows. Excess tax benefits of \$60.1 million and \$0.8 million for the three months ended December 31, 2010 and 2009, respectively, have been classified as financing cash inflows in the consolidated statements of cash flows. See also Note 13.

11. Income Taxes

The effective tax rate was 24.8% and 24.9% for the three months ended December 31, 2010 and 2009, respectively. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted on December 17, 2010, retroactively extended the Research and Experimentation Credits which had lapsed on December 31, 2009. As a result of the extension, the Company recognized a \$3.0 million benefit net of uncertainties during the three months ended December 31, 2010 reflecting anticipated credits for the nine months ended September 30, 2010. During the three months ended December 31, 2009, the Company recorded a \$3.2 million reduction to income tax expense as a result of settling the portion of the Internal Revenue Service audit relating to Research & Experimentation credits.

Table of Contents

The Company is currently at Appeals with the U.S. Internal Revenue Service for fiscal 2006 and 2007 and under examination for fiscal 2008 and 2009. The Company anticipates that the Appeals process will be concluded in the foreseeable future; however, based on the status of the process, it is not possible to estimate the impact of the conclusion on the Company's unrecognized tax benefits.

As discussed in Note 13, the Company terminated its U.S. deferred compensation plan effective in December 2009 and distributed the plan balances to plan participants in December 2010. Distributions valued at \$223.0 million were made to plan participants, which resulted in taxable earnings to the participants and a tax deductible expense to the Company. As a result of the distribution, the Company recorded a \$89.2 million increase to its income taxes receivable, a \$30.9 million reduction in its deferred tax asset and a \$58.3 million increase to additional paid in capital. The increase in additional paid in capital reflects the tax benefits resulting from income tax deductions in excess of recognized compensation expense.

12. Earnings Per Share

Basic earnings 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 potential common stock equivalent shares for the period. The Company includes as potential common stock equivalent shares the weighted average dilutive effects of outstanding share-based payment awards using the treasury stock method.

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

	Three Months Ended	
	December 31, 2010	December 31, 2009
	(in millions)	
Denominator for basic earnings per share	118.0	113.2
Potential common shares:		
Stock options	0.7	1.1
Other	0.4	0.2
Denominator for diluted earnings per share	119.1	114.5

For the three months ended December 31, 2010 and 2009, no share-based payment awards were excluded from the calculation of potential common shares because they were considered anti-dilutive. The Company excludes stock options from the computation of diluted EPS when the option's price is greater than the average market price of the Company's common shares. The Company also would exclude common stock equivalent shares from the computation in loss periods as their effect would be anti-dilutive.

13. Other Financial Information

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Accrued expenses consist of the following:

	December 31, 2010	September 30, 2010
	(in millions)	
Accrued salaries and benefits	\$ 324.4	\$ 363.7
Accrued contract costs	418.2	381.1
Deferred compensation plan liability	0.9	88.8
Other accrued expenses	75.6	69.2
	\$ 819.1	\$ 902.8

Accrued contract costs above include balances related to professional liability accruals of \$112.9 million and \$108.6 million as of December 31, 2010 and September 30, 2010, respectively. Other accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees.

Table of Contents***Deferred Compensation Plan Termination***

In December 2009, the Company elected to terminate its U.S. deferred compensation plan. In accordance with tax code requirements, deferred compensation plan account balances were distributed to all participants in December 2010. As a result, substantially all of the Company's deferred compensation plan liability listed in the above table and 5.2 million outstanding stock units were settled in December 2010. The Company settled these stock units by issuing shares of common stock, which resulted in taxable earnings to the plan participants. As such, the Company repurchased 1.7 million shares for \$48.6 million to satisfy participants' minimum statutory tax withholdings.

At September 30, 2010, \$67.2 million in investments were held in a rabbi trust to fund the deferred compensation plan liability. In December 2010, the Company borrowed \$59.3 million against the balance of these investments to partially fund the distribution of the liability portion of the deferred compensation plan. The loan is presented as an offset to the investment balance in the accompanying consolidated balance sheets and as proceeds from financing activities in the accompanying statements of cash flows. As of December 31, 2010, the net investment balance held in the rabbi trust was \$9.4 million, which is classified within other current assets.

Other long-term liabilities consist of the following:

	December 31, 2010	September 30, 2010
	(in millions)	
Pension liabilities (Note 7)	\$ 185.1	\$ 164.2
Reserve for uncertain tax positions (Note 11)	54.5	72.1
Other	148.4	101.2
	\$ 388.0	\$ 337.5

The components of accumulated other comprehensive loss are as follows:

	December 31, 2010	September 30, 2010
	(in millions)	
Foreign currency translation adjustment	\$ 6.0	\$ (5.5)
Defined benefit minimum pension liability adjustment, net of tax	(141.3)	(142.0)
	\$ (135.3)	\$ (147.5)

14. 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 December 31, 2010, the Company was contingently liable in the amount of approximately \$189.9 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

Table of Contents

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 2007 by Combat Support Associates (CSA), a consolidated joint venture that includes AECOM Government Services, Inc., in the performance of a U.S. Government contract in Kuwait. The costs in question, which have been recognized as revenue on an accrual basis over the life of the contract, 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. As a result of the issuance of the DCAA Form 1, the U.S. Government withheld approximately \$18 million from payments on current year billings pending final resolution of the questioned costs.

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 based upon advice of Kuwaiti legal counsel that CSA has been and continues to be in compliance with STI requirements of Kuwait labor laws. 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.

15. 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 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.

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.

Table of Contents

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

Reportable Segments:	Professional Technical Services	Management Support Services	Corporate	Total
	(in millions)			
Three Months Ended December 31, 2010:				
Revenue	\$ 1,575.8	\$ 360.4	\$	\$ 1,936.2
Revenue, net of other direct costs(1)	1,084.8	129.0		1,213.8
Gross profit	89.5	15.8		105.3
Equity in earnings of joint ventures	2.1	6.0		8.1
General and administrative expenses			23.2	23.2
Operating income	91.6	21.8	(23.2)	90.2
Gross profit as a % of revenue	5.7%	4.4%		5.4%
Gross profit as a % of revenue, net of other direct costs(1)	8.3%	12.2%		8.7%
Three Months Ended December 31, 2009:				
Revenue	\$ 1,204.5	\$ 276.3	\$	\$ 1,480.8
Revenue, net of other direct costs(1)	883.8	78.5		962.3
Gross profit	71.7	11.3		83.0
Equity in earnings of joint ventures	2.3	2.1		4.4
General and administrative expenses			21.9	21.9
Operating income	74.0	13.4	(21.9)	65.5
Gross profit as a % of revenue	6.0%	4.1%		5.6%
Gross profit as a % of revenue, net of other direct costs(1)	8.1%	14.4%		8.6%

(1) Non-GAAP measure.

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, is confident that or words of similar nature 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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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.

Table of Contents

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 51,200 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).

Our PTS segment delivers planning, consulting, architecture and engineering design, and program and construction management services to commercial and government clients worldwide in end markets such as the transportation, facilities, environmental, energy, water and government 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 program and 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 twelve months as acquired companies.

Components of Income and Expense

Our management analyzes the results of our operations using several non-GAAP measures. As discussed in Overview above, 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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

in a measurement that we refer to as revenue, net of other direct costs, which is a measure of work performed by AECOM employees and, as discussed in Overview above, a large portion of our fees are derived through work performed by AECOM employees rather than other parties. 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, and the related gross margins, as discussed in Results of Operations below. Because of the importance of maintaining the high quality of work generated by our employees, gross margin is an important metric that management reviews in evaluating the Company's operating performance.

Table of Contents

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

	Three Months Ended December 31,	
	2010	2009
(in millions)		
Other Financial Data:		
Revenue	\$ 1,936.2	\$ 1,480.8
Other direct costs*	722.4	518.5
Revenue, net of other direct costs*	1,213.8	962.3
Cost of revenue, net of other direct costs*	1,108.5	879.3
Gross profit	105.3	83.0
Equity in earnings of joint ventures	8.1	4.4
General and administrative expenses	23.2	21.9
Income from operations	\$ 90.2	\$ 65.5
Reconciliation of Cost of Revenue:		
Other direct costs	\$ 722.4	\$ 518.5
Cost of revenue, net of other direct costs	1,108.5	879.3
Cost of revenue	\$ 1,830.9	\$ 1,397.8

*Non-GAAP measure.

Results of Operations

Three months ended December 31, 2010 compared to the three months ended December 31, 2009

Consolidated Results

	December 31, 2010	Three Months Ended December 31,		Change \$	%
		2010	2009		
(in millions)					
Revenue	\$ 1,936.2	\$ 1,480.8	\$ 455.4	30.8%	
Other direct costs	722.4	518.5	203.9	39.3	
Revenue, net of other direct costs	1,213.8	962.3	251.5	26.1	
Cost of revenue, net of other direct costs	1,108.5	879.3	229.2	26.1	
Gross profit	105.3	83.0	22.3	26.9	
Equity in earnings of joint ventures	8.1	4.4	3.7	84.1	
General and administrative expenses	23.2	21.9	1.3	5.9	
Income from operations	90.2	65.5	24.7	37.7	
Other income	2.3	1.7	0.6	35.3	
Interest expense, net	(9.9)	(1.0)	(8.9)	*	

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Income from continuing operations before income tax expense	82.6	66.2	16.4	24.8
Income tax expense	20.5	16.4	4.1	25.0
Income from continuing operations	62.1	49.8	12.3	24.7
Discontinued operations, net of tax		0.1	(0.1)	(100.0)
Net income	62.1	49.9	12.2	24.4
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(5.2)	(4.1)	(1.1)	26.8
Net income attributable to AECOM	\$ 56.9	\$ 45.8	\$ 11.1	24.2%

* *Not meaningful*

Table of Contents

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

	Three Months Ended	
	December 31, 2010	December 31, 2009
Revenue, net of other direct costs	100.0%	100.0%
Cost of revenue, net of other direct costs	91.3	91.4
Gross margin	8.7	8.6
Equity in earnings of joint ventures	0.7	0.5
General and administrative expense	2.0	2.3
Income from operations	7.4	6.8
Other income	0.2	0.2
Interest expense, net	(0.8)	(0.1)
Income from continuing operations before income tax expense	6.8	6.9
Income tax expense	1.7	1.7
Income from continuing operations	5.1	5.2
Discontinued operations, net of tax		
Net income	5.1	5.2
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.4)	(0.4)
Net income attributable to AECOM	4.7%	4.8%

Revenue

Our revenue for the three months ended December 31, 2010 increased \$455.4 million, or 30.8% to \$1.9 billion as compared to \$1.5 billion for the corresponding period last year. \$385.4 million of our revenue for the three months ended December 31, 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 \$70.0 million, or 4.7%, from the three months ended December 31, 2009.

The increase in revenue, excluding acquired companies, for the three months ended December 31, 2010 was primarily attributable to increased demand for our engineering and program management services on infrastructure projects in Australia, Asia and Canada of approximately \$35 million, \$15 million and \$10 million, respectively, partially offset by a reduction in services for clients in Europe and the United States. Additionally, approximately \$20 million of the increase was attributable to stronger foreign currencies (primarily the Australian and Canadian dollars).

Revenue, Net of Other Direct Costs

Our revenue, net of other direct costs, for the three months ended December 31, 2010 increased \$251.5 million, or 26.1%, to \$1.2 billion as compared to \$962.3 million for the corresponding period last year. Of this increase, \$181.1 million, or 72.0%, 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 \$70.4 million, or 7.3% over the three months ended December 31, 2009.

The increase in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, was primarily due to increased demand for our engineering and program management services on infrastructure projects in Australia and Asia of approximately \$25 million and \$15 million, respectively, and increased activity in various MSS projects. Additionally, approximately \$15 million of the increase was attributable to stronger foreign currencies (primarily the Australian and Canadian dollars).

Gross Profit

Our gross profit for the three months ended December 31, 2010 increased \$22.3 million, or 26.9%, to \$105.3 million as compared to \$83.0 million for the corresponding period last year. \$4.5 million of our gross profit for the three months ended December 31, 2010 was provided by companies acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit increased \$17.8 million, or 21.4%, from the three months ended December 31, 2009. For the three months ended December 31, 2010, gross profit, as a percentage of revenue, net of other direct costs, increased to 8.7% from 8.6% in the three months ended December 31, 2009.

\$2 million of the increase in gross profit, excluding acquired companies, was attributable to stronger foreign currencies (primarily the Australian and Canadian dollars).

Table of Contents

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended December 31, 2010 increased \$3.7 million, or 84.1%, to \$8.1 million as compared to \$4.4 million in the corresponding period last year.

\$3.3 million of our equity in earnings of joint ventures for the three months ended December 31, 2010 was provided by companies acquired in the past twelve months. Excluding the revenue provided by companies acquired in the past twelve months, equity in earnings of joint ventures increased \$0.4 million, or 9.1%, from the three months ended December 31, 2009.

General and Administrative Expenses

Our general and administrative expenses for the three months ended December 31, 2010 increased \$1.3 million, or 5.9%, to \$23.2 million as compared to \$21.9 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, general and administrative expenses decreased from 2.3% in the three months ended December 31, 2009 to 2.0% in the three months ended December 31, 2010.

The increase in general and administrative expenses was primarily attributable to costs associated with staffing and other expenses associated with the growth in our business.

Other Income

Our other income for the three months ended December 31, 2010 was \$2.3 million as compared to other income of \$1.7 million for the three months ended December 31, 2009.

Other income 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.

Interest Expense, Net

Our net interest expense for the three months ended December 31, 2010 was \$9.9 million as compared to \$1.0 million of net interest expense for the three months ended December 31, 2009.

The increase in interest expense primarily relates to increased borrowings associated with the funding of acquisitions.

Income Tax Expense

Our income tax expense for the three months ended December 31, 2010 increased \$4.1 million, or 25.0%, to \$20.5 million as compared to \$16.4 million for the three months ended December 31, 2009. The effective tax rate was 24.8% and 24.9% for the three months ended December 31, 2010 and 2009, respectively.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted on December 17, 2010, retroactively extended the Research and Experimentation Credits which had lapsed on December 31, 2009. As a result of the extension, the Company recognized a \$3.0 million benefit net of uncertainties during the three months ended December 31, 2010 reflecting anticipated credits for the nine-months ended September 30, 2010. The benefit recorded during the three-month period ended December 31, 2009 was primarily related to a \$3.2 million reduction in the reserve for uncertain tax positions resulting from the Research and Experimentation Credit portion of the Internal Revenue Service examination of fiscal 2006 and 2007.

Net Income Attributable to AECOM

The factors described above resulted in net income of \$56.9 million for the three months ended December 31, 2010, as compared to net income of \$45.8 million for the three months ended December 30, 2009.

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

	December 31, 2010	Three Months Ended December 31, 2009 (in millions)	Change \$	%
Revenue	\$ 1,575.8	\$ 1,204.5	\$ 371.3	30.8%
Other direct costs	491.0	320.7	170.3	53.1
Revenue, net of other direct costs	1,084.8	883.8	201.0	22.7
Cost of revenue, net of other direct costs	995.3	812.1	183.2	22.6
Gross profit	\$ 89.5	\$ 71.7	\$ 17.8	24.8%

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

	December 31, 2010	Three Months Ended December 31, 2009
Revenue, net of other direct costs	100.0%	100.0%
Cost of revenue, net of other direct costs	91.7	91.9
Gross margin	8.3%	8.1%

Revenue

Revenue for our PTS segment for the three months ended December 31, 2010 increased \$371.3 million, or 30.8%, to \$1.6 billion as compared to \$1.2 billion for the corresponding period last year. Revenue provided by companies acquired in the past twelve months was \$306.9 million. Excluding revenue provided by acquired companies, revenue increased \$64.4 million, or 5.3%, over the three months ended December 31, 2009.

The increase in revenue, excluding acquired companies, for the three months ended December 31, 2010 was primarily attributable to increased demand for our engineering and program management services on infrastructure projects in Australia, Asia and Canada of approximately \$35 million, \$15 million and \$10 million, respectively, partially offset by a reduction in services for clients in Europe and the United States. Additionally, approximately \$20 million of the increase was attributable to stronger foreign currencies (primarily the Australian and Canadian dollars).

Revenue, Net of Other Direct Costs

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Revenue, net of other direct costs, for our PTS segment for the three months ended December 31, 2010 increased \$201.0 million, or 22.7%, to \$1.1 billion as compared to \$883.8 million for the corresponding period last year. Of this increase, \$150.2 million, or 74.7%, 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 \$50.8 million, or 5.7%, over the three months ended December 31, 2009.

The increase in revenue, net of other direct costs, excluding revenue net of other direct costs provided by acquired companies for the three months ended December 31, 2010 was primarily due to increased demand for our engineering and program management services on infrastructure projects in Australia and Asia of approximately \$25 million and \$15 million, respectively. Additionally, approximately \$15 million of the increase was attributable to stronger foreign currencies (primarily the Australian and Canadian dollars).

Gross Profit

Gross profit for our PTS segment for the three months ended December 31, 2010 increased \$17.8 million, or 24.8%, to \$89.5 million as compared to \$71.7 million for the corresponding period last year. Gross profit provided by companies acquired in the past twelve months was \$1.2 million. Excluding gross profit provided by acquired companies, gross profit increased \$16.6 million, or 23.2%, from the three months ended December 31, 2009. As a percentage of revenue, net of other direct costs, gross profit increased to 8.3% of revenue, net of other direct costs, for the three months ended December 31, 2010 from 8.1% in the corresponding period last year.

The increase in gross profit, excluding acquired companies, and gross profit, as a percentage of revenue, net of other direct costs, was primarily attributable to the benefits realized from our continuing cost efficiency initiatives including the integration of our acquisitions and improved project performance.

\$2 million of the increase in gross profit, excluding acquired companies, was attributable to stronger foreign currencies (primarily the Australian and Canadian dollars).

Table of ContentsManagement Support Services

	December 31, 2010	Three Months Ended December 31, 2009		Change	
				\$	%
		(in millions)			
Revenue	\$ 360.4	\$ 276.3	\$ 84.1	30.4%	
Other direct costs	231.4	197.8	33.6	17.0	
Revenue, net of other direct costs	129.0	78.5	50.5	64.3	
Cost of revenue, net of other direct costs	113.2	67.2	46.0	68.5	
Gross profit	\$ 15.8	\$ 11.3	\$ 4.5	39.8%	

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

	Three Months Ended	
	December 31, 2010	December 31, 2009
Revenue, net of other direct costs	100.0%	100.0%
Cost of revenue, net of other direct costs	87.8	85.6
Gross margin	12.2%	14.4%

Revenue

Revenue for our MSS segment for the three months ended December 31, 2010 increased \$84.1 million, or 30.4%, to \$360.4 million as compared to \$276.3 million for the corresponding period last year. Of this increase, \$78.5 million, or 93.3%, was provided by companies acquired in the past twelve months. Excluding revenue provided by acquired companies, revenue increased \$5.6 million, or 2.0%, over the three months ended December 31, 2009.

Revenue, Net of Other Direct Costs

Revenue, net of other direct costs, for our MSS segment for the three months ended December 31, 2010 increased \$50.5 million, or 64.3%, to \$129.0 million as compared to \$78.5 million for the corresponding period last year. Of this increase, \$30.9 million, or 61.2%, 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 \$19.6 million, or 25.0% over the three months ended December 31, 2009.

The increase in revenue, net of other direct costs, excluding acquired companies, for the three months ended December 31, 2010 was primarily attributable to increased activity of self-performed work for our global maintenance and support services for the United States Army and various projects with United States intelligence agencies.

Gross Profit

Gross profit for our MSS segment for the three months ended December 31, 2010 increased \$4.5 million, or 39.8%, to \$15.8 million as compared to \$11.3 million for the corresponding period last year. Of this increase, \$3.3 million, or 73.3%, was provided by companies acquired in the past twelve months. Excluding gross profit provided by acquired companies, gross profit increased \$1.2 million, or 10.6%. As a percentage of revenue, net of other direct costs, gross profit decreased to 12.2% in the three months ended December 31, 2010 from 14.4% in the corresponding period last year.

The increase in gross profit, excluding acquired companies, for the three months ended December 31, 2010 as compared to the corresponding period in the prior year was primarily attributable to improved performance of a contract with the U.S. government in the Middle East.

The decrease in gross profit, as a percentage of revenue, net of other direct costs for the three months ended December 31, 2010 was primarily due to decreased activity on a depot maintenance project for the United States Army.

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

Table of Contents

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 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.

At December 31, 2010, cash and cash equivalents were \$421.2 million, a decrease of \$191.7 million, or 31.3%, from \$612.9 million at September 30, 2010. This decrease was primarily attributable to cash used by operating activities and payments for business acquisitions, offset by net proceeds from borrowings.

Net cash used in operating activities was \$179.3 million for the three months ended December 31, 2010, an increase of \$144.7 million from \$34.6 million for the three months ended December 31, 2009. This increase in cash used in operating activities was primarily attributable to the \$89.7 million settlement of our U.S. deferred compensation plan liability, as described in Note 13 to the financial statements, and the \$60.1 million excess tax benefit from share-based payment, which was primarily attributable to the settlement of this plan liability.

Net cash used in investing activities was \$350.2 million for the three months ended December 31, 2010, an increase of \$326.6 million from \$23.6 million for the three months ended December 31, 2009. This increase was primarily due to payments for business acquisitions.

Net cash provided by financing activities was \$334.1 million for the three months ended December 31, 2010, compared with \$17.6 million in the comparable period last year, an increase of \$316.5 million. This increase was primarily attributable to the increase in net borrowings to fund acquisitions.

Working Capital

Working capital, or current assets less current liabilities, increased \$135.0 million, or 12.3%, to \$1.2 billion at December 31, 2010 from \$1.1 billion at September 30, 2010. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, increased \$129.1 million, or 7.1%, to \$2.0 billion at December 31, 2010, primarily attributable to recent acquisitions.

Accounts receivable increased 6.7%, or \$145.4 million, from September 30, 2010 to December 31, 2010 primarily due to recent acquisitions.

Days Sales Outstanding (DSO), including accounts receivable, net of billings in excess of costs on uncompleted contracts, adjusted for the effects of recent acquisitions, at December 31, 2010, was 90 days compared to the 89 days at September 30, 2010.

In Note 5 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 December 31, 2010 and September 30, 2010 are expected to be billed and collected within twelve months.

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 December 31, 2010 and September 30, 2010, 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, the majority usually within 15 days. 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:

	December 31, 2010	September 30, 2010
	(in millions)	
Unsecured term credit agreement	\$ 607.4	\$ 609.1
Unsecured senior notes	251.3	250.5
Unsecured revolving credit facility	299.0	26.5
Secured notes	25.8	25.9
Other debt	23.0	19.1
Total debt	1,206.5	931.1
Less: Current portion of debt and short-term borrowings	(18.9)	(16.4)
Long-term debt, less current portion	\$ 1,187.6	\$ 914.7

The following table presents, in millions, scheduled maturities of our debt:

Fiscal Year	
2011 (nine months remaining)	\$ 18.0
2012	339.7
2013	122.2
2014	451.4
2015	1.4
Thereafter	273.8
Total	\$ 1,206.5

Unsecured Term Credit Agreements

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

In September 2010, we entered into an unsecured term credit agreement with a syndicate of banks to support our working capital and acquisition needs. Pursuant to the credit agreement, we borrowed \$600 million in term loans and may borrow up to an additional \$100 million in term loans upon our request subject to certain conditions. The loans under the credit agreement bear interest, at our option, at either the base rate (as defined in the credit agreement) plus an applicable margin or the Eurodollar rate (as defined in the credit agreement) plus an applicable margin. The applicable margin for base rate loans is a range of 1.0% to 2.25% and the applicable margin for Eurodollar rate loans is a range of 2.0% to 3.25%, both based on our debt-to-earnings leverage ratio at the end of each fiscal quarter. For the quarter ended December 31, 2010, the average interest rate was 2.8%. Payments of the initial principal amount outstanding under the credit agreement are required on a quarterly basis beginning in September 2012. Any remaining principal of the loans under the credit agreement is due no later than September 2014.

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 foreign earnings to the U.S. at a 5.25% tax rate. The agreement provided for a \$65.0 million, five-year term loan among four subsidiary borrowers and one subsidiary guarantor. In order to obtain favorable pricing, we also provided a parent company guarantee. In June 2010, certain of our wholly-owned subsidiaries entered into an amendment to this credit agreement to, among other things, permit the Company to enter into the note purchase agreement for a private placement of senior unsecured notes (as described below) and permit the subsidiaries to enter into subsidiary guarantees in

Table of Contents

connection therewith. The amounts outstanding on this credit agreement were \$7.4 million and \$9.1 million at December 31, 2010 and September 30, 2010, respectively.

Unsecured Senior Notes

In June 2010, we 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. The outstanding accreted balance of Series B Notes was \$76.3 million at December 31, 2010. Our obligations under the Notes are guaranteed by certain of our subsidiaries pursuant to one or more subsidiary guarantees.

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. 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 December 31, 2010 and September 30, 2010, \$299.0 million and \$26.5 million, respectively, was outstanding under our credit facility. At December 31, 2010 and September 30, 2010, outstanding standby letters of credit totaled \$31.8 million and \$31.5 million, respectively, under our credit facility. Additionally, we could have drawn upon the remaining \$269.2 million available under our credit facility.

Covenants and Restrictions

All of our debt agreements discussed above contain certain negative covenants relating to the Company's leverage ratio, which is based on outstanding borrowings (including financial letters of credit) and earnings before interest, taxes, depreciation, and amortization. Our Unsecured Revolving Credit Facility and Unsecured Term Credit Agreements also contain certain covenants that limit our ability to, among other things, (i) issue financial and commercial standby letters of credit, (ii) issue performance guarantees, (iii) incur indebtedness and contingent obligations, and (iv) pay dividends or make certain other restricted payments or investments. Our Unsecured Senior Notes contain certain covenants that restrict indebtedness and require us to maintain a minimum net worth. Should we fail to comply with these covenants, all or a portion of its borrowings under the Unsecured Senior Notes and Unsecured Term Credit Agreements could become immediately payable and its Unsecured Revolving Credit Facility could be terminated. At December 31, 2010, we were in compliance with all such covenants.

Interest Rate Swaps

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

We previously had interest rate swap agreements with financial institutions to fix the variable interest rates on portions of debt outstanding under the Company's revolving credit facility which expired in August 2010. We applied cash flow hedge accounting for the interest rate swap agreements. Accordingly, the derivatives were recorded at fair value as assets or liabilities and the effective portion of changes in the fair value of the derivative, as measured quarterly, was reported in other comprehensive income.

Our average effective interest rate on borrowings under our revolving credit facility, including the effects of the swaps, during the three months ended December 31, 2010 and 2009 was 1.2% and 3.6%, respectively.

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 and obligations under capital leases. In addition to the revolving credit facility discussed above, at December 31, 2010, we had \$248.4 million of unsecured credit facilities primarily used to cover periodic overdrafts and standby letters of credit, of which, \$158.1 million was utilized for outstanding standby letters of credit.

Table of Contents

Commitments and Contingencies

Other than normal property and equipment additions and replacements, expenditures to further the implementation of our Enterprise Resource Planning 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 may be required.

Under our unsecured revolving credit facility and other facilities discussed in Other Debt above, as of December 31, 2010, there was approximately \$189.9 million 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 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 three months ended December 31, 2010 were \$14.1 million for U.S. plans and \$4.0 million for non-U.S. plans. Funding requirements for each plan are determined based on the local laws of the country where such plan resides. In certain countries, the funding requirements are mandatory while in other countries, they are discretionary. We currently expect to contribute \$3.5 million to our U.S. plans and \$14.5 million for non-U.S. plans in fiscal 2011. 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 2007 by Combat Support Associates (CSA), a consolidated joint venture that includes AECOM Government Services, Inc., in the performance of a U.S. Government contract in Kuwait. The costs in question, which have been recognized as revenue on an accrual basis over the life of the contract, 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. As a result of the issuance of the DCAA Form 1, the U.S. Government withheld approximately \$18 million from payments on current year billings pending final resolution of the questioned costs.

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 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.

New Accounting Pronouncements and Changes in Accounting

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to fair value measurements. The Company adopted the guidance for the quarter ended March 31, 2010, except for the portion of the guidance that requires the disclosure of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). This guidance becomes effective for the Company in its fiscal year beginning October 1, 2011. The Company does not believe that the adoption of the separate disclosures related to Level 3 measurements in its fiscal year beginning October 1, 2011 will have a material impact on the consolidated financial statements.

On October 1, 2010, the Company adopted guidance issued by the FASB on revenue recognition. The new guidance provides another alternative for determining the selling price of deliverables, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, and requires companies to allocate arrangement consideration to separate deliverables using the relative selling price method. The adoption of the guidance did not have a material effect on our consolidated financial statements.

Table of Contents

On October 1, 2010, the Company also adopted guidance issued by the FASB on the consolidation of variable interest entities. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of whether the Company has the power to direct the activities over such entities, and additional disclosures for variable interests. Adoption of the new guidance did not have a material impact on our consolidated financial statements, see Note 6.

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. 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 10 to the consolidated financial statements in our 2010 Form 10-K and Note 6 herein. 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 significant foreign operations is the local currency.

Interest Rates

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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 December 31, 2010 and September 30, 2010, we had \$906.4 million and \$635.6 million, respectively, outstanding borrowings under our credit facility and our term credit agreements. Interest on amounts borrowed under our credit facility and our term credit agreements is subject to adjustment based on certain levels of financial performance. These borrowings are at offshore rates, for which the applicable margin added can range from 0.50% to 3.25%. For the three months ended December 31, 2010, our weighted average floating rate borrowings were \$755.6 million. If short term floating interest rates were to increase or decrease by 1%, our annual interest expense could have increased or decreased by \$7.6 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 December 31, 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.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our quarter ended December 31, 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, none of which, in the opinion of our management, based upon current information and discussions with counsel, is expected to have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business. 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.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

A substantial majority of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal 2010, 2009 and 2008, approximately 73%, 71% and 64%, respectively, of our revenue was derived 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. We currently anticipate that SAFETEA-LU, which is set to expire in March 2011, will be extended by continuing resolutions of Congress as it has been prior to all previous scheduled expirations. If SAFETEA-LU is not extended, it could have a material adverse effect on our financial condition and results of operations.

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

Table of Contents

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 economic conditions remain uncertain or weaken, 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. During 2008 and 2009, worldwide economic conditions deteriorated in the U.S. and in many other countries and regions and there was a severe tightening of the global credit markets. Economic conditions may remain difficult for the foreseeable future. If global economic and financial market conditions remain uncertain and/or weak, 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.

Where economies are weakening, 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 economic conditions remain uncertain and/or weaken 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 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 materially adversely impact our business.

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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 2010, approximately 37% 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 23% of our fiscal 2010 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

Table of Contents

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 10% of our fiscal 2010 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.

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 December 31, 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 \$185.1 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 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 2010, 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;

Table of Contents

- 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 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 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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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.

Table of Contents

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 professional technical and management support services markets we serve are highly fragmented and we compete with a large number of regional, national and international companies. Certain of these competitors have greater financial and other resources than we do. Others are smaller and more specialized, and concentrate their resources in particular areas of expertise. The extent of our competition varies according to the particular markets and geographic area. The degree and type of competition we face is also influenced by the type and scope of a particular project. Our clients make competitive determinations based upon qualifications, experience, performance, reputation, technology, customer relationships and ability to provide the relevant services in a timely, safe and cost-efficient manner. Increased competition may result in our inability to win bids for future projects and loss of revenue, profitability and market share.

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 collection risk and nonpayment 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 December 31, 2010, our contracted backlog was approximately \$7.9 billion and our awarded backlog was approximately \$7.6 billion for a total backlog of \$15.5 billion. Our contracted backlog includes revenue we expect to record in the future from

Table of Contents

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.

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;

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

- 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

Table of Contents

- 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;
- 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.

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

During the three-month period ended December 31, 2010, we issued the following securities that were not registered under the Securities Act of 1933, as amended (the Securities Act):

2,340,622 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:

Exhibit Numbers	Description
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
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability.

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: February 8, 2011

By:

/s/ MICHAEL S. BURKE

Michael S. Burke

Executive Vice President, Chief Financial Officer