

AECOM
Form 10-Q
February 08, 2017
[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, 2016

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

(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)

1999 Avenue of the Stars, Suite 2600
Los Angeles, California 90067

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Edgar Filing: AECOM - Form 10-Q

As of February 1, 2017, 155,315,517 shares of the registrant's common stock were outstanding.

AECOM

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, 2016 (unaudited) and September 30, 2016</u>	1
	<u>Consolidated Statements of Operations for the Three Months Ended December 31, 2016 (unaudited) and December 31, 2015 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended December 31, 2016 (unaudited) and December 31, 2015 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2016 (unaudited) and December 31, 2015 (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>	26
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4.	<u>Controls and Procedures</u>	38
<u>PART II.</u>	<u>OTHER INFORMATION</u>	38
Item 1.	<u>Legal Proceedings</u>	38
Item 1A.	<u>Risk Factors</u>	38
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 4.	<u>Mine Safety Disclosure</u>	51
Item 6.	<u>Exhibits</u>	52
<u>SIGNATURES</u>		53

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

	December 31, 2016 (Unaudited)	September 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 560,513	\$ 588,644
Cash in consolidated joint ventures	137,204	103,501
Total cash and cash equivalents	697,717	692,145
Accounts receivable net	4,538,396	4,531,460
Prepaid expenses and other current assets	707,738	730,101
Income taxes receivable	41,250	47,065
TOTAL CURRENT ASSETS	5,985,101	6,000,771
PROPERTY AND EQUIPMENT NET	634,916	644,992
DEFERRED TAX ASSETS NET	136,442	171,508
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	343,874	330,485
GOODWILL	5,784,423	5,823,843
INTANGIBLE ASSETS NET	449,785	479,439
OTHER NON-CURRENT ASSETS	174,455	218,898
TOTAL ASSETS	\$ 13,508,996	\$ 13,669,936
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$ 14,785	\$ 26,303
Accounts payable	1,967,051	1,910,915
Accrued expenses and other current liabilities	2,168,508	2,384,815
Income taxes payable	10,774	10,774
Billings in excess of costs on uncompleted contracts	660,266	631,928
Current portion of long-term debt	343,944	340,021
TOTAL CURRENT LIABILITIES	5,165,328	5,304,756
OTHER LONG-TERM LIABILITIES	358,755	403,364
DEFERRED TAX LIABILITY NET	12,887	13,097
PENSION BENEFIT OBLIGATIONS	660,797	694,073
LONG-TERM DEBT	3,751,342	3,702,157
TOTAL LIABILITIES	9,949,109	10,117,447
COMMITMENTS AND CONTINGENCIES (Note 14)		
AECOM STOCKHOLDERS EQUITY:		
	1,551	1,539

Edgar Filing: AECOM - Form 10-Q

Common stock authorized, 300,000,000 shares of \$0.01 par value as of December 31 and September 30, 2016; issued and outstanding 155,143,497 and 153,901,500 shares as of December 31 and September 30, 2016, respectively

Additional paid-in capital	3,620,291	3,604,519
Accumulated other comprehensive loss	(912,858)	(857,582)
Retained earnings	669,429	618,445
TOTAL AECOM STOCKHOLDERS EQUITY	3,378,413	3,366,921
Noncontrolling interests	181,474	185,568
TOTAL STOCKHOLDERS EQUITY	3,559,887	3,552,489
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 13,508,996	\$ 13,669,936

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Operations

(unaudited - in thousands, except per share data)

	Three Months Ended	
	December 31, 2016	December 31, 2015
Revenue	\$ 4,358,349	\$ 4,297,651
Cost of revenue	4,188,376	4,156,793
Gross profit	169,973	140,858
Equity in earnings of joint ventures	21,471	25,263
General and administrative expenses	(32,639)	(28,639)
Acquisition and integration expenses	(15,412)	(41,038)
Loss on disposal activities		(41,053)
Income from operations	143,393	55,391
Other income	860	3,042
Interest expense	(53,637)	(59,518)
Income (loss) before income tax expense	90,616	(1,085)
Income tax expense (benefit)	24,838	(682)
Net income (loss)	65,778	(403)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(18,599)	(19,964)
Net income (loss) attributable to AECOM	\$ 47,179	\$ (20,367)
Net income (loss) attributable to AECOM per share:		
Basic	\$ 0.31	\$ (0.13)
Diluted	\$ 0.30	\$ (0.13)
Weighted average shares outstanding:		
Basic	154,255	153,619
Diluted	157,993	153,619

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Comprehensive Income (Loss)

(unaudited in thousands)

	Three Months Ended	
	December 31, 2016	December 31, 2015
Net income (loss)	\$ 65,778	\$ (403)
Other comprehensive income (loss), net of tax:		
Net unrealized gain on derivatives, net of tax	1,367	5,323
Foreign currency translation adjustments	(73,924)	(97,694)
Pension adjustments, net of tax	16,973	689
Other comprehensive loss, net of tax	(55,584)	(91,682)
Comprehensive income (loss), net of tax	10,194	(92,085)
Noncontrolling interests in comprehensive loss of consolidated subsidiaries, net of tax	(18,291)	(18,337)
Comprehensive loss attributable to AECOM, net of tax	\$ (8,097)	\$ (110,422)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Three Months Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 65,778	\$ (403)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	66,916	111,018
Equity in earnings of unconsolidated joint ventures	(21,471)	(25,263)
Distribution of earnings from unconsolidated joint ventures	24,370	39,370
Non-cash stock compensation	21,337	21,500
Excess tax benefit from share-based payment		(3,324)
Foreign currency translation	(15,387)	(54,312)
Pension curtailment and settlement gains		(7,818)
Loss on disposal activities		41,053
Other	(3,077)	2,892
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	47,064	29,119
Prepaid expenses and other current and non-current assets	(14,728)	(6,075)
Accounts payable	55,460	53,522
Accrued expenses and other current liabilities	(144,301)	(140,765)
Billings in excess of costs on uncompleted contracts	26,019	18,068
Other long-term liabilities	(30,473)	(527)
Net cash provided by operating activities	77,507	78,055
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of businesses		37,567
Net investment in unconsolidated joint ventures	(18,133)	(7,724)
Proceeds from sales of investments	300	11,201
Payments for purchase of investments		(214)
Proceeds from disposal of property and equipment	2,557	21,940
Payments for capital expenditures	(23,584)	(22,783)
Net cash (used in) provided by investing activities	(38,860)	39,987
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	1,634,781	1,222,663
Repayments of borrowings under credit agreements	(1,607,380)	(1,304,882)
Cash paid for debt and equity issuance costs		(1,178)
Proceeds from issuance of common stock	9,875	6,894
Proceeds from exercise of stock options	2,067	3,013
Payments to repurchase common stock	(17,494)	(17,343)
Excess tax benefit from share-based payment		3,324
Net distributions to noncontrolling interests	(21,938)	(37,785)
Other financing activities	(26,280)	(12,950)
Net cash used in financing activities	(26,369)	(138,244)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(6,706)	(5,647)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,572	(25,849)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	692,145	683,893
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 697,717	\$ 658,044

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

Effective January 5, 2015, the official name of the Company changed from AECOM Technology Corporation to AECOM. The accompanying consolidated financial statements of AECOM (the Company) are unaudited and, in the opinion of management, include all adjustments, including all normal recurring items 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, 2016 (the Annual Report). 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. Certain immaterial reclassifications were made to the prior year to conform to current year presentation.

The consolidated financial statements included in this report have been prepared consistently with the accounting policies described in the Annual Report and should be read together with the Annual Report.

The results of operations for the three months ended December 31, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2017.

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 May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance which amended the existing accounting standards for revenue recognition. The new accounting guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected

consideration received in exchange for those goods or services. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company continues to evaluate the impact and method of the adoption of the new accounting guidance on its consolidated financial statements and expects to adopt the new guidance on October 1, 2018.

In February 2015, the FASB issued amended guidance to the consolidation standard which updates the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, among other provisions. This amended guidance was effective for the Company's fiscal year beginning October 1, 2016. The adoption of this guidance did not have a material impact on the Company's financial statements.

In April 2015, the FASB issued new accounting guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The guidance requires retrospective application and represents a change in accounting principle. This guidance was effective for the Company's fiscal year beginning October 1, 2016, which resulted in the reclassifications of \$54.0 million and \$56.8 million of unamortized debt issuance costs at December 31 and September 30, 2016, respectively, from other non-current assets to long-term debt.

In April 2015, the FASB issued new accounting guidance which provides the use of a practical expedient that permits the entity to measure defined benefit plans assets and obligations using the month-end date that is closest to the entity's fiscal year-end date and apply that practical expedient consistently from year to year. This guidance was effective for the Company's fiscal year beginning October 1, 2016 and did not have a material impact on its consolidated financial statements.

Table of Contents

In February 2016, the FASB issued new accounting guidance which changes accounting for leases. The new guidance requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The guidance will be effective for the Company's fiscal year beginning October 1, 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In March 2016, the FASB issued new accounting guidance which simplifies the accounting for employee share-based payments. The new guidance requires all income tax effects of awards to be recognized in the statement of operations when the awards vest or are settled. It will also allow an employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The Company has elected early adoption of this standard in the first quarter of fiscal year 2017. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued a new credit loss standard that changes the impairment model for most financial assets and certain other instruments. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The guidance will be effective for the Company's fiscal year starting October 1, 2020. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2016, the FASB issued new guidance clarifying how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance will be effective for the Company in its fiscal year beginning October 1, 2018, and early adoption is permitted. The Company is currently evaluating the impact that the new guidance will have on its consolidated statement of cash flows.

3. Business Acquisitions, Goodwill and Intangible Assets

The Company completed one acquisition during the year ended September 30, 2016 for total consideration of \$5.5 million. The business combination did not meet the quantitative thresholds to require separate disclosures based on the Company's consolidated net assets, investments and net income. The acquisition was accounted for under the purchase method of accounting. As such, the purchase consideration was allocated to acquired tangible and intangible assets and liabilities based upon their fair values. The determination of fair values of assets and liabilities acquired requires the Company to make estimates and use valuation techniques when market value is not readily available. Transaction costs associated with business acquisitions are expensed as they are incurred.

On October 17, 2014, the Company completed the acquisition of the U.S. headquartered URS Corporation (URS), an international provider of engineering, construction, and technical services, by purchasing 100% of the outstanding shares of URS common stock. The Company paid total consideration of approximately \$2.3 billion in cash and issued approximately \$1.6 billion of AECOM common stock to the former stockholders and certain equity award holders of URS. In connection with the acquisition, the Company also assumed URS's senior notes totaling \$0.4 billion, net of Company repayments. The Company repaid in full URS's \$0.6 billion 2011 term loan and \$0.1 billion of URS's revolving line of credit.

Edgar Filing: AECOM - Form 10-Q

The Company acquired backlog and customer relationship intangible assets valued at \$973.8 million representing the fair value of existing contracts and the underlying customer relationships, and have lives ranging from 1 to 11 years (weighted average lives of approximately 3 years) in connection with the URS acquisition. Acquired accrued expenses and other current liabilities include URS project liabilities and approximately \$240 million related to estimated URS legal settlements and uninsured legal damages; see Note 14, Commitments and Contingencies, including legal matters related to former URS affiliates.

Amortization of intangible assets relating to URS, included in cost of revenue, was \$20.9 million and \$59.0 million during the three months ended December 31, 2016 and 2015, respectively. Additionally, included in equity in earnings of joint ventures and noncontrolling interests was intangible amortization expense of \$2.0 million and (\$2.1) million, respectively, during the three months ended December 31, 2016 and \$9.7 million and (\$5.7) million, respectively, during the three months ended December 31, 2015 related to joint venture fair value adjustments.

Billings in excess of costs on uncompleted contracts includes a margin fair value liability associated with long-term contracts acquired in connection with the acquisition of URS. This margin fair value liability was \$149.1 million at the acquisition date and its carrying value was \$13.3 million at December 31, 2016, and is recognized as revenue on a percentage-of-completion basis as the applicable projects progress. The majority of this liability was recognized over the first two years from the acquisition date. Revenue and the related income from operations related to the margin fair value liability recognized during the three months ended December 31, 2016 and 2015 was \$1.6 million and \$15.1 million, respectively.

Table of Contents

Acquisition and integration expenses, relating to the acquisition of URS, in the accompanying consolidated statements of operations comprised of the following (in millions):

	Three months ended Dec 31,	
	2016	2015
Severance and personnel costs	\$ 11.5	\$ 6.6
Professional service, real estate-related, and other expenses	3.9	34.4
Total	\$ 15.4	\$ 41.0

Included in severance and personnel costs for the three months ended December 31, 2016 and 2015 was \$8.7 million and \$6.6 million of severance expenses, respectively, of which \$0 and \$4.3 million was paid as of December 31, 2016 and 2015, respectively. All acquisition and integration expenses are classified within the Corporate segment, as presented in Note 15.

Interest expense in the consolidated statements of operations for the three months ended December 31, 2016 and 2015 included acquisition related financing expenses of \$2.8 million and \$4.1 million, respectively.

Loss on disposal activities of \$41.0 million in the accompanying Statements of Operations for the three months ended December 31, 2015 included losses on the disposition of non-core energy related businesses, equipment and other assets acquired with URS and reported within the Construction Services segment. Net assets related to the loss on disposal activities were \$99.6 million. Income from operations included losses incurred by non-core businesses of \$7.1 million during the three months ended December 31, 2015.

The changes in the carrying value of goodwill by reportable segment for the three months ended December 31, 2016 were as follows:

	September 30, 2016	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Disposed	December 31, 2016
Design and Consulting Services	\$ 3,198.2	\$	\$ (22.1)	\$	\$ 3,176.1
Construction Services	915.2		(4.9)		910.3
Management Services	1,710.4		(12.4)		1,698.0
Total	\$ 5,823.8	\$	\$ (39.4)	\$	\$ 5,784.4

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 31 and September 30, 2016, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

Edgar Filing: AECOM - Form 10-Q

	December 31, 2016			September 30, 2016			Amortization Period (years)
	Gross Amount	Accumulated Amortization	Intangible Assets, Net (in millions)	Gross Amount	Accumulated Amortization	Intangible Assets, Net	
Backlog and customer relationships	\$ 1,242.9	\$ (793.1)	\$ 449.8	\$ 1,247.1	\$ (767.7)	\$ 479.4	1 - 11
Trademark / tradename	16.4	(16.4)		16.4	(16.4)		0.3 - 2
Total	\$ 1,259.3	\$ (809.5)	\$ 449.8	\$ 1,263.5	\$ (784.1)	\$ 479.4	

Table of Contents

Amortization expense of acquired intangible assets included within cost of revenue was \$25.4 million and \$65.1 million for the three months ended December 31, 2016 and 2015, respectively. The following table presents estimated amortization expense of existing intangible assets for the remainder of fiscal 2017 and for the succeeding years:

Fiscal Year	(in millions)	
2017 (nine months remaining)	\$	72.1
2018		81.5
2019		76.3
2020		64.4
2021		54.6
Thereafter		100.9
Total	\$	449.8

4. Accounts Receivable Net

Net accounts receivable consisted of the following:

	December 31, 2016	(in millions)		September 30, 2016
Billed	\$ 2,200.5	\$		2,267.6
Unbilled	1,941.8			1,890.2
Contract retentions	456.0			434.1
Total accounts receivable gross	4,598.3			4,591.9
Allowance for doubtful accounts	(59.9)			(60.4)
Total accounts receivable net	\$ 4,538.4	\$		4,531.5

Billed accounts receivable represents amounts billed to clients that have yet to be collected. Unbilled accounts receivable represents contract 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, 2016 and September 30, 2016 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, or other contractual conditions, or upon the completion of a 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 outstanding receivables at December 31, 2016 and September 30, 2016.

The Company sold trade receivables to financial institutions, of which \$375.1 million and \$356.3 million were outstanding as of December 31, 2016 and September 30, 2016, respectively. The Company does not retain financial or legal obligations for these receivables that would result in material losses. The Company's ongoing involvement is limited to the remittance of customer payments to the financial institutions with respect to the sold trade receivables.

5. 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 representatives from the joint venture partners. The joint venture executive committee normally provides management oversight and controls decisions which could have a significant impact on the joint venture.

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. For consolidated joint ventures of this type, the Company records the entire amount of the services performed and the costs associated with these services, including the services provided by the other joint venture partners, in the Company's result of operations. 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.

Table of Contents

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.

The Company follows guidance on the consolidation of variable interest entities (VIEs) that 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 that indicate a party has 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 analyzes its joint ventures and classifies them as either:

- a VIE that must be consolidated because the Company is the primary beneficiary or the joint venture is not a VIE and 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 and is treated as an equity method investment 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.

As part of the above analysis, if it is determined that the Company has the power to direct the activities that most significantly impact the joint venture's economic performance, the Company considers whether or not it has the obligation to absorb losses or rights to receive benefits of the VIE that could potentially be significant to the VIE.

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, 2016	September 30, 2016
	(in millions)	
Current assets	\$ 591.6	\$ 684.1
Non-current assets	236.1	230.8
Total assets	\$ 827.7	\$ 914.9
Current liabilities	\$ 386.3	\$ 407.4
Non-current liabilities	12.4	12.4
Total liabilities	398.7	419.8
Total AECOM equity	255.6	318.0
Noncontrolling interests	173.4	177.1

Edgar Filing: AECOM - Form 10-Q

Total owners' equity		429.0		495.1
Total liabilities and owners' equity	\$	827.7	\$	914.9

Total revenue of the consolidated joint ventures was \$456.9 million and \$485.2 million for the three months ended December 31, 2016 and 2015, 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, 2016	September 30, 2016
	(in millions)	
Current assets	\$ 1,417.6	\$ 1,407.0
Non-current assets	513.6	499.4
Total assets	\$ 1,931.2	\$ 1,906.4
Current liabilities	\$ 1,021.2	\$ 977.3
Non-current liabilities	162.3	146.2
Total liabilities	1,183.5	1,123.5
Joint ventures equity	747.7	782.9
Total liabilities and joint ventures equity	\$ 1,931.2	\$ 1,906.4
AECOM's investment in joint ventures	\$ 343.9	\$ 330.5

	December 31, 2016	December 31, 2015
	(in millions)	
Revenue	\$ 1,142.0	\$ 1,228.1
Cost of revenue	1,085.8	1,169.2
Gross profit	\$ 56.2	\$ 58.9
Net income	\$ 54.3	\$ 48.9

Summary of AECOM's equity in earnings of unconsolidated joint ventures is as follows:

	December 31, 2016	December 31, 2015
	(in millions)	
Pass through joint ventures	\$ 7.5	\$ 4.8
Other joint ventures	13.9	20.4
Total	\$ 21.4	\$ 25.2

6. Pension Benefit Obligations

In the U.S., the Company sponsors various qualified defined benefit pension plans. The legacy AECOM defined benefit plan covers substantially all permanent AECOM employees hired as of March 31, 1998. Benefits under these plans generally are based on the employee's years of creditable service and compensation. The Company adopted an amendment to freeze benefits under the URS Federal Services, Inc. Employees Retirement Plan during the three months ended December 31, 2015, which resulted in the curtailment gain listed below. All U.S. defined benefit plans are closed to new participants and have frozen accruals.

Edgar Filing: AECOM - Form 10-Q

The Company also sponsors various non-qualified plans in the U.S.; all of these plans are frozen. Outside the U.S., the Company sponsors various pension plans, which are appropriate to the country in which the Company operates, some of which are government mandated.

Edgar Filing: AECOM - Form 10-Q

Table of Contents

The following table details the components of net periodic cost for the Company's pension plans for the three months ended December 31, 2016 and 2015:

	Three Months Ended			
	December 31, 2016		December 31, 2015	
	U.S.	Int'l	U.S.	Int'l
	(in millions)			
Components of net periodic (benefit) cost:				
Service costs	\$ 1.1	\$ 0.3	\$ 1.8	\$ 0.3
Interest cost on projected benefit obligation	4.8	7.0	5.7	10.5
Expected return on plan assets	(7.8)	(10.2)	(7.8)	(12.8)
Amortization of prior service cost		(0.1)		(0.1)
Amortization of net loss	1.1	3.2	1.0	1.4
Curtailement gain recognized			(6.8)	
Settlement (gain) loss recognized			(1.0)	0.1
Net periodic (benefit) cost	\$ (0.8)	\$ 0.2	\$ (7.1)	\$ (0.6)

The total amounts of employer contributions paid for the three months ended December 31, 2016 were \$2.6 million for U.S. plans and \$5.7 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2017 are \$7.2 million for U.S. plans and \$18.3 million for non-U.S. plans.

7. Debt

Debt consisted of the following:

	December 31, 2016	September 30, 2016
	(in millions)	
2014 Credit Agreement	\$ 1,996.1	\$ 1,954.9
2014 Senior Notes	1,600.0	1,600.0
URS Senior Notes	427.3	427.7
Other debt	140.6	142.7
Total debt	4,164.0	4,125.3
Less: Current portion of debt and short-term borrowings	(358.7)	(366.3)
Less: Unamortized debt issuance costs	(54.0)	(56.8)
Long-term debt	\$ 3,751.3	\$ 3,702.2

The following table presents, in millions, scheduled maturities of the Company's debt as of December 31, 2016:

Edgar Filing: AECOM - Form 10-Q

Fiscal Year		
2017 (nine months remaining)	\$	324.8
2018		128.6
2019		119.6
2020		114.2
2021		1,524.5
Thereafter		1,952.3
Total	\$	4,164.0

2014 Credit Agreement

The Company entered into a credit agreement (Credit Agreement) on October 17, 2014, as amended, consisting of (i) a term loan A facility in an aggregate principal amount of \$1.925 billion, (ii) a term loan B facility in an aggregate principal amount of \$0.76 billion, and (iii) a revolving credit facility in an aggregate principal amount of \$1.05 billion. These facilities under the Credit Agreement may be increased by an additional amount of up to \$500 million. The Credit Agreement's term extends to September 29, 2021 with respect to the revolving credit facility and the term loan A facility and October 17, 2021 with respect to the term loan B facility. Some subsidiaries of the Company (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers' obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of certain conditions specified in the Credit Agreement and Security Agreement.

The Credit Agreement contains covenants that limit the Company's ability and certain of its subsidiaries to, among other things: (i) create, incur, assume, or suffer to exist liens; (ii) incur or guarantee indebtedness; (iii) pay dividends or repurchase stock; (iv) enter into transactions with affiliates; (v) consummate asset sales, acquisitions or mergers; (vi) enter into certain types of burdensome agreements; or (vii) make investments.

Table of Contents

On July 1, 2015, the Credit Agreement was amended to revise the definition of Consolidated EBITDA to increase the allowance for acquisition and integration expenses related to the acquisition of URS.

On December 22, 2015, the Credit Agreement was amended to further revise the definition of Consolidated EBITDA by further increasing the allowance for acquisition and integration expenses related to the acquisition of URS and to allow for an internal corporate restructuring primarily involving its international subsidiaries.

On September 29, 2016, the Credit Agreement and the Security Agreement were amended to (1) lower the applicable interest rate margins for the term loan A and the revolving credit facilities, and lower the applicable letter of credit fees and commitment fees to the revised consolidated leverage levels; (2) extend the term of the term loan A and the revolving credit facility to September 29, 2021; (3) add a new delayed draw term loan A facility tranche in the amount of \$185.0 million; (4) replace the then existing \$500 million performance letter of credit facility with a \$500 million basket to enter into secured letters of credit outside the Credit Agreement; and (5) revise certain covenants, including the Maximum Consolidated Leverage Ratio so that the step down from a 5.00 to a 4.75 leverage ratio is effective as of March 31, 2017 as well as the investment basket for its AECOM Capital business.

Under the Credit Agreement, the Company is subject to a maximum consolidated leverage ratio and minimum consolidated interest coverage ratio at the end of each fiscal quarter. The Company's Consolidated Leverage Ratio was 4.4 at December 31, 2016. The Company's Consolidated Interest Coverage Ratio was 4.6 at December 31, 2016. As of December 31, 2016, the Company was in compliance with the covenants of the Credit Agreement.

At December 31, 2016 and September 30, 2016, outstanding standby letters of credit totaled \$51.4 million and \$92.3 million, respectively, under the Company's revolving credit facilities. As of December 31, 2016 and September 30, 2016, the Company had \$862.1 million and \$888.4 million, respectively, available under its revolving credit facility.

2014 Senior Notes

On October 6, 2014, the Company completed a private placement offering of \$800,000,000 aggregate principal amount of its 5.750% Senior Notes due 2022 (2022 Notes) and \$800,000,000 aggregate principal amount of its 5.875% Senior Notes due 2024 (the 2024 Notes and, together with the 2022 Notes, the 2014 Senior Notes or Notes).

As of December 31, 2016, the estimated fair value of its 2014 Senior Notes was approximately \$842.0 million for the 2022 Notes and \$848.0 million for the 2024 Notes. The fair value of the Notes as of December 31, 2016 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of its Notes.

At any time prior to October 15, 2017, the Company may redeem all or part of the 2022 Notes, at a redemption price equal to 100% of their principal amount, plus a make whole premium as of the redemption date, and accrued and unpaid interest (subject to the rights of holders of record on the relevant record date to receive interest due on the relevant interest payment date). In addition, at any time prior to October 15,

Edgar Filing: AECOM - Form 10-Q

2017, the Company may redeem up to 35% of the original aggregate principal amount of the 2022 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 105.750%, plus accrued and unpaid interest. Furthermore, at any time on or after October 15, 2017, the Company may redeem the 2022 Notes, in whole or in part, at once or over time, at the specified redemption prices plus accrued and unpaid interest thereon to the redemption date. At any time prior to July 15, 2024, the Company may redeem on one or more occasions all or part of the 2024 Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of the redemption, plus any accrued and unpaid interest to the date of redemption. In addition, on or after July 15, 2024, the 2024 Notes may be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

The indenture pursuant to which the 2014 Senior Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide certain notices thereunder and certain provisions related to bankruptcy events. The indenture also contains customary negative covenants.

In connection with the offering of the Notes, the Company and the Guarantors entered into a Registration Rights Agreement, dated as of October 6, 2014 to exchange the Notes for registered notes having terms substantially identical in all material respects (except certain transfer restrictions, registration rights and additional interest provisions relating to the Notes will not apply to the registered notes). The Company filed a registration statement on Form S-4 with the SEC on July 6, 2015 that was declared effective by the SEC on September 29, 2015. On November 2, 2015, the Company completed its exchange offer which exchanged the Notes for the registered notes, as well as all related guarantees.

Table of Contents

The Company was in compliance with the covenants relating to the Notes as of December 31, 2016.

URS Senior Notes

In connection with the URS acquisition, the Company assumed URS's 3.85% Senior Notes due 2017 (2017 URS Senior Notes) and its 5.00% Senior Notes due 2022 (2022 URS Senior Notes), totaling \$1.0 billion (URS Senior Notes). The URS acquisition triggered change in control provisions in the URS Senior Notes that allowed the holders of the URS Senior Notes to redeem their URS Senior Notes at a cash price equal to 101% of the principal amount and, accordingly, the Company redeemed \$572.3 million of the URS Senior Notes on October 24, 2014. The URS Senior Notes are general unsecured senior obligations of AECOM Global II, LLC (as successor in interest to URS) and URS Fox US LP and are fully and unconditionally guaranteed on a joint-and-several basis by certain former URS domestic subsidiary guarantors.

As of December 31, 2016, the estimated fair value of the URS Senior Notes was approximately \$179.2 million for the 2017 URS Senior Notes and \$251.0 million for the 2022 URS Senior Notes. The carrying value of the URS Senior Notes on the Company's Consolidated Balance Sheets as of December 31, 2016 was \$179.7 million for the 2017 URS Senior Notes and \$247.6 million for the 2022 URS Senior Notes. The fair value of the URS Senior Notes as of December 31, 2016 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the URS Senior Notes.

As of December 31, 2016, the Company was in compliance with the covenants relating to the URS Senior Notes.

Other Debt

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. The Company's unsecured credit facilities are primarily used for standby letters of credit issued for payment of performance guarantees. At December 31, 2016 and September 30, 2016, these outstanding standby letters of credit totaled \$413.5 million and \$382.2 million, respectively. As of December 31, 2016, the Company had \$534.9 million available under these unsecured credit facilities.

Effective Interest Rate

The Company's average effective interest rate on its total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2016 and 2015 was 4.2% and 4.2%, respectively.

8. Derivative Financial Instruments and Fair Value Measurements

Edgar Filing: AECOM - Form 10-Q

The Company uses certain interest rate derivative contracts to hedge interest rate exposures on the Company's variable rate debt. The Company enters into foreign currency derivative contracts with financial institutions to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company's hedging program is not designated for trading or speculative purposes.

The Company recognizes derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. The Company records changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as accounting hedges in the accompanying consolidated statements of operations as cost of revenue, interest expense or to accumulated other comprehensive loss in the accompanying consolidated balance sheets.

Cash Flow Hedges

The Company uses interest rate swap agreements designated as cash flow hedges to fix the variable interest rates on portions of the Company's debt. The Company also uses foreign currency contracts designated as cash flow hedges to hedge forecasted revenue transactions denominated in currencies other than the U.S. dollar. The Company initially reports any gain on the effective portion of a cash flow hedge as a component of accumulated other comprehensive loss. Depending on the type of cash flow hedge, the gain is subsequently reclassified to either interest expense when the interest expense on the variable rate debt is recognized, or to cost of revenue when the hedged revenues are recorded. If the hedged transaction becomes probable of not occurring, any gain or loss related to interest rate swap agreements or foreign currency contracts would be recognized in other income (expense). Further, the Company excludes the change in the time value of the foreign currency contracts from the assessment of hedge effectiveness. The Company records the premium paid or time value of a contract on the date of purchase as an asset. Thereafter, the Company recognizes any change to this time value in cost of revenue.

Table of Contents

The notional principal, fixed rates and related expiration dates of the Company's outstanding interest rate swap agreements were as follows:

	December 31, 2016		Expiration
Notional Amount (in millions)		Fixed Rate	Date
\$	300.0	1.63%	June 2018
	300.0	1.54%	September 2018

	September 30, 2016		Expiration
Notional Amount (in millions)		Fixed Rate	Date
\$	300.0	1.63%	June 2018
	300.0	1.54%	September 2018

The notional principal of outstanding foreign currency forward contracts to purchase Australian dollars (AUD) was AUD 44.1 million (or \$32.9 million) and AUD 58.6 million (or \$43.4 million) at December 31, 2016 and September 30, 2016, respectively.

Other Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts which are not designated as accounting hedges to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. Gains and losses on these contracts were not material for the three months ended December 31, 2016 and 2015.

Fair Value Measurements

The Company's non-pension financial assets and liabilities recorded at fair values relate to derivative instruments and were not material at December 31, 2016 or 2015.

See Note 13 for accumulated balances and reporting period activities of derivatives related to reclassifications out of accumulated other comprehensive income or loss for the three months ended December 31, 2016 and 2015. Amounts recognized in accumulated other comprehensive loss from the Company's foreign currency contracts were immaterial for all periods presented. Amounts reclassified from accumulated other comprehensive loss into income from the foreign currency contracts were immaterial for all periods presented. Additionally, there were no losses recognized in income due to amounts excluded from effectiveness testing from the Company's interest rate swap agreements.

During the year ended September 30, 2015, the Company entered into a contingent consideration arrangement in connection with a business acquisition. Under the arrangement, the Company agreed to pay cash to the sellers if certain financial performance thresholds are achieved in the future. The fair value of the contingent consideration liability, net of amounts paid, as of December 31, 2016 and September 30, 2016 was \$22 million and \$39 million, respectively, which decreased due to payments during the three months ended December 31, 2016. This liability is a Level 3 fair value measurement recorded within other accrued liabilities, and was valued based on estimated future net cash flows. After the initial recording of this liability as a part of purchase accounting, there were no material subsequent changes in fair value through December 31, 2016. Any future changes in the fair value of this contingent consideration liability will be recognized in earnings during the applicable period.

9. Share-based Payments

The fair value of the Company's employee stock option awards is estimated on the date of grant. The expected term of awards granted represents the period of time the awards are expected to be outstanding. 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

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

	Shares of stock under options (in millions)	2016 Weighted average exercise price	Shares of stock under options (in millions)	2015 Weighted average exercise price
Outstanding at September 30	0.9	\$ 30.36	1.3	\$ 28.26
Options granted				
Options exercised	(0.1)	25.46	(0.2)	23.94
Options forfeited or expired				
Outstanding at December 31	0.8	30.86	1.1	28.92
Vested and expected to vest in the future as of December 31	0.8	\$ 30.86	1.1	\$ 28.92

The Company grants stock units to employees under its Performance Earnings Program (PEP), whereby units are earned and issued dependent upon meeting established performance or market objectives and vest over a three-year service period. Additionally, the Company issues restricted stock units to employees which are earned based on service conditions. The grant date fair value of PEP awards and restricted stock unit awards is that day's closing market price of the Company's common stock. The weighted average grant date fair value of PEP awards were \$38.16 and \$29.92 during the three months ended December 31, 2016 and 2015, respectively. The weighted average grant date fair value of restricted stock unit awards were \$38.08 and \$29.92 during the three months ended December 31, 2016 and 2015, respectively. Total compensation expense related to share-based payments including stock options was \$21.3 million and \$21.5 million during the three months ended December 31, 2016 and 2015, respectively. Unrecognized compensation expense related to total share-based payments outstanding as of December 31, 2016 and September 30, 2016 was \$149.8 million and \$91.8 million, respectively, to be recognized on a straight-line basis over the awards' respective vesting periods which are generally three years.

10. Income Taxes

The Company's effective tax rate from continuing operations was 27.4% and 62.9% for the three months ended December 31, 2016 and 2015, respectively. The most significant items contributing to the difference between the statutory U.S. federal income tax rate of 35% and the Company's effective tax rate for the three month period ended December 31, 2016 were a \$4.1 million benefit of the effect of the favorable tax impacts of changes in the geographical mix of income and a benefit related to non-controlling interests partially offset by an increase in valuation allowances regarding the realizability of certain current year foreign losses. These items are expected to have a continuing impact on the effective tax rate for the remainder of the fiscal year.

The Company is utilizing the annual effective tax rate method under ASC 740 to compute its interim tax provision. The Company's effective tax rate fluctuates from quarter to quarter due to various factors including the change in the mix of global income and expenses, outcomes of administrative audits, changes in the assessment of valuation allowances due to management's consideration of new positive or negative evidence during the quarter, and changes in enacted tax laws and their interpretations which upon enactment include possible tax reform contemplated in the United States and other jurisdictions around the world arising from the result of the base erosion and profit shifting project undertaken by the Organisation for Economic Co-operation Development which, if finalized and adopted, could have a material impact on the Company's income tax expense and deferred tax balances.

The Company believes the outcomes which are reasonably possible within the next twelve months, including lapses in statutes of limitations, will not result in a material change in the liability for uncertain tax positions.

Generally, the Company does not provide for U.S. taxes or foreign withholding taxes on gross book-tax differences in its non-U.S. subsidiaries because such basis differences of approximately \$1.6 billion are able to and intended to be reinvested indefinitely. If these basis differences were distributed, foreign tax credits could become available under current law to partially or fully reduce the resulting U.S. income tax liability. There may also be additional U.S. or foreign income tax liability upon repatriation, although the calculation of such additional taxes is not practicable. The Company has a deferred tax liability in the amount of \$113.2 million relating to certain foreign subsidiaries for which the undistributed earnings are not intended to be reinvested indefinitely.

11. Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income attributable to AECOM 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 shares for the period. The Company includes as potential common shares the weighted average dilutive effects of equity awards using the treasury stock method. For the three months ended December 31, 2016, equity awards excluded from the calculation of potential common shares were not significant. The computation of diluted loss per share for the three months ended December 31, 2015 excluded 1.2 million of potential common shares due to their antidilutive effect.

Table of Contents

The following table sets forth a reconciliation of the denominators for basic and diluted earnings per share:

	Three Months Ended	
	December 31, 2016	December 31, 2015
	(in millions)	
Denominator for basic earnings per share	154.3	153.6
Potential common shares	3.7	
Denominator for diluted earnings per share	158.0	153.6

12. Other Financial Information

Accrued expenses and other current liabilities consist of the following:

	December 31, 2016	September 30, 2016	
		(in millions)	
Accrued salaries and benefits	\$ 887.5	\$	964.9
Accrued contract costs	991.6		1,009.8
Other accrued expenses	289.4		410.1
	\$ 2,168.5	\$	2,384.8

Accrued contract costs above include balances related to professional liability accruals of \$574.5 million and \$611.0 million as of December 31, 2016 and September 30, 2016, respectively. The remaining accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees. Liabilities recorded related to accrued contract losses were not material as of December 31, 2016 and September 30, 2016. The Company did not have material revisions to estimates for contracts where revenue is recognized using the percentage-of-completion method during the three months ended December 31, 2016.

During the twelve months ended September 30, 2016, the Company recorded revenue related to the expected accelerated recovery of a pension related entitlement from the federal government of approximately \$50 million, which is included in accounts receivable-net at December 31, 2016. The actual amount of reimbursement may vary from the Company's expectation.

13. Reclassifications out of Accumulated Other Comprehensive Loss

The accumulated balances and reporting period activities for the three months ended December 31, 2016 and 2015 related to reclassifications out of accumulated other comprehensive loss are summarized as follows (in millions):

Edgar Filing: AECOM - Form 10-Q

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Loss on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2016	\$ (368.9)	\$ (483.7)	\$ (5.0)	\$ (857.6)
Other comprehensive (loss) income before reclassification	13.7	(73.5)	0.7	(59.1)
Amounts reclassified from accumulated other comprehensive loss:				
Actuarial losses, net of tax	3.2			3.2
Cash flow hedge losses, net of tax			0.6	0.6
Balances at December 31, 2016	\$ (352.0)	\$ (557.2)	\$ (3.7)	\$ (912.9)

Table of Contents

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Loss on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2015	\$ (204.0)	\$ (420.1)	\$ (11.0)	\$ (635.1)
Other comprehensive income (loss) before reclassification	(1.0)	(96.1)	4.0	(93.1)
Amounts reclassified from accumulated other comprehensive loss:				
Actuarial losses, net of tax	1.7			1.7
Cash flow hedge losses, net of tax			1.3	1.3
Balances at December 31, 2015	\$ (203.3)	\$ (516.2)	\$ (5.7)	\$ (725.2)

14. Commitments and Contingencies

The Company records amounts representing its probable 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's reasonably possible loss disclosures are presented on a gross basis prior to the consideration of insurance recoveries. The Company does not record gain contingencies until they are realized. In the ordinary course of business, the Company may not be aware that it or its affiliates are under investigation and may not be aware of whether or not a known investigation has been concluded.

In the ordinary course of business, the Company may enter into various arrangements providing financial or performance assurance to clients, lenders, or partners. Such arrangements include standby letters of credit, surety bonds, and corporate guarantees to support the creditworthiness or the project execution commitments of its affiliates, partnerships and joint ventures. Performance arrangements typically have various expiration dates ranging from the completion of the project contract and extending beyond contract completion in certain circumstances such as for warranties. The Company may also guarantee that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may incur additional costs, pay liquidated damages or be held responsible for the costs incurred by the client to achieve the required performance standards. The potential payment amount of an outstanding performance arrangement is typically 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) may be required to complete those activities.

At December 31, 2016 and September 30, 2016, the Company was contingently liable in the amount of approximately \$464.9 million and \$474.5 million, respectively, in issued standby letters of credit and \$3.6 billion and \$3.3 billion, respectively, in issued surety bonds primarily to support project execution.

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.

In addition, in connection with the investment activities of AECOM Capital, the Company provides guarantees of certain obligations, including guarantees for completion of projects, repayment of debt, environmental indemnity obligations and acts of willful misconduct.

DOE Deactivation, Demolition, and Removal Project

Washington Group International, an Ohio company (WGI Ohio), an affiliate of URS, executed a cost-reimbursable task order with the Department of Energy (DOE) in 2007 to provide deactivation, demolition and removal services at a New York State project site that, during 2010, experienced contamination and performance issues and remains uncompleted. In February 2011, WGI Ohio and the DOE executed a Task Order Modification that changed some cost-reimbursable contract provisions to at-risk. The Task Order Modification, including subsequent amendments, requires the DOE to pay all project costs up to \$106 million, requires WGI Ohio and the DOE to equally share in all project costs incurred from \$106 million to \$146 million, and requires WGI Ohio to pay all project costs exceeding \$146 million.

Due to unanticipated requirements and permitting delays by federal and state agencies, as well as delays and related ground stabilization activities caused by Hurricane Irene in 2011, WGI Ohio has been required to perform work outside the scope of the Task Order Modification. In December 2014, WGI Ohio submitted claims against the DOE pursuant to the Contracts Disputes Acts seeking recovery of \$103 million, including additional fees on changed work scope.

Table of Contents

Due to significant delays and uncertainties about responsibilities for the scope of remaining work, final project completion costs and other associated costs may exceed \$100 million over the contracted amounts. In addition, WGI Ohio assets and liabilities, including the value of the above costs and claims, were also measured at their fair value on October 17, 2014, the date AECOM acquired WGI Ohio's parent company, see Note 3, which has been reevaluated to account for developments pertaining to this matter.

WGI Ohio can provide no certainty that it will recover the DOE claims and fees submitted in December 2014, as well as any other project costs after December 2014 that WGI Ohio may be obligated to incur including the remaining project completion costs, which could have a material adverse effect on the Company's results of operations.

DOE Hanford Nuclear Reservation

URS Energy and Construction, Washington River Protection Solutions LLC and Washington Closure Hanford LLC (collectively the URS Affiliates) perform services under multiple contracts (including under the Waste Treatment Plant contract, the Tank Farm contract and the River Corridor contract) at the DOE's Hanford nuclear reservation that have been subject to various government investigations or litigation matters:

- **Waste Treatment Plant government investigation and litigation:** The federal government has conducted an investigation into the Company's affiliate, URS Energy & Construction, a subcontractor on the Waste Treatment Plant, regarding contractual compliance and various technical issues in the design, development and construction of the Waste Treatment Plant. On November 23, 2016, a qui tam civil lawsuit entitled *United States ex rel. Brunson, Busche, and Tamosaitis v. Bechtel National, Inc., Bechtel Corp., URS Corp., and URS Energy & Construction* was unsealed against Bechtel and URS Energy & Construction in the U.S. District Court for the Eastern District of Washington alleging false statements and claims related to the design, development and construction of the Waste Treatment Plant from January 2001 until June 2013, a period which occurred before AECOM's acquisition of URS Corporation and its affiliates in October 17, 2014. URS Energy & Construction is a subcontractor to Bechtel, the prime contractor of the Waste Treatment Plant contract. On November 22, 2016, Bechtel and URS Energy & Construction settled with the federal government to fully resolve the dispute without admitting liability, with URS Energy & Construction agreeing to pay \$57.5 million (plus accrued interest and the relators attorneys' fees). As a result of this settlement, the Company recorded a net benefit of approximately \$35 million, which is reflected as a reduction in cost of revenue.
- **Tank Farms government investigation:** The federal government conducted an investigation of the Company's joint venture, Washington River Protection Solutions LLC, regarding the failure to comply with time keeping and internal audit requirements. On January 23, 2017, Washington River Protection Solutions LLC settled this matter without admitting liability for \$5.3 million, which did not have a material impact to the financial statements.
- **River Corridor litigation:** The federal government has partially intervened with a relator in a qui tam complaint filed in the Eastern District of Washington in December 2013 against the Company's joint venture, Washington Closure Hanford LLC, alleging that its contracting procedures under the Small Business Act violated the

False Claims Act. On October 2015, Washington Closure Hanford LLC's motion to dismiss the claim was partially denied. Prior to the commencement of discovery, the matter was stayed pending the United States Supreme Court's decision in *Universal Health Services v. United States ex rel. Escobar*, which was rendered in June 2016. The matter resumed in November of 2016, and is now in discovery.

The URS Affiliates periodically reevaluate the estimated fair value of liabilities assumed from URS Corporation, including the legal related liabilities described above and in Note 3, to account for developments related to the Hanford matters. Washington Closure Hanford LLC disputes the River Corridor matter and intends to continue to defend this ongoing matter vigorously. Washington Closure Hanford LLC cannot provide assurances that it will be successful in its defense efforts. The potential range of loss and any difference from the current accrual cannot be reasonably estimated at this time, primarily because the matter involves complex and unique regulatory issues; the matter contains multiple parties; the matter involves conflicts of law between local, state and federal regulations; there is substantial uncertainty regarding any alleged damages; and the matter is in an intermediary stage of litigation.

Securities Litigation Matter

On September 1, 2016, an AECOM stockholder, filed a securities class action complaint in the United States District Court for the Central District of California alleging that the Company and its senior executives made materially false and misleading statements in violation of the federal securities laws. The Company believes the complaint is without merit and intends to vigorously defend against it. While no assurance can be given as to the ultimate outcome of this action, the Company believes that the final resolution of this action will not have a material adverse effect on its consolidated financial position, results of operations, cash flows or ability to conduct business.

Table of Contents**World Bank Review - Asia**

The World Bank has conducted inspections of the accounts and records of two of our affiliates in connection with World Bank-financed contracts awarded to those affiliates in Asia. The affiliates have provided information and cooperation to the World Bank and are engaged in discussions with the World Bank to resolve issues arising out of the inspections. No assurance can be given as to the outcome of this matter, and it could result in sanctions against our affiliates.

15. Reportable Segments

The Company's operations are organized into three reportable segments: Design and Consulting Services (DCS), Construction Services (CS), and Management Services (MS). The Company's DCS reportable segment delivers planning, consulting, architectural, environmental, and engineering design services to commercial and government clients worldwide. The Company's CS reportable segment provides construction services primarily in the Americas. The Company's MS 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 reportable segments 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.

During the first quarter of fiscal year 2017, an operation and maintenance related entity previously reported within the CS segment was realigned within the MS segment to reflect present management oversight. Accordingly, approximately \$33 million of revenue and \$32 million of cost of revenue was reclassified for the quarter ended December 31, 2015 to conform to the current period presentation.

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

Reportable Segments:	Design and Consulting Services	Construction Services	Management Services (in millions)	Corporate	Total
Three Months Ended December 31, 2016:					
Revenue	\$ 1,840.8	\$ 1,750.2	\$ 767.3	\$	\$ 4,358.3
Gross profit	95.2	13.8	61.0		170.0
Equity in earnings of joint ventures	4.1	4.3	13.0		21.4
General and administrative expenses				(32.6)	(32.6)
Acquisition and integration expenses				(15.4)	(15.4)
Operating income	99.3	18.1	74.0	(48.0)	143.4
Gross profit as a % of revenue	5.2%	0.8%	7.9%		3.9%

Edgar Filing: AECOM - Form 10-Q

Three Months Ended									
December 31, 2015:									
Revenue	\$	1,862.1	\$	1,678.6	\$	757.0	\$	4,297.7	
Gross profit		79.3		11.4		50.2		140.9	
Equity in earnings of joint ventures		3.0		2.6		19.6		25.2	
General and administrative expenses							(28.7)	(28.7)	
Acquisition and integration expenses							(41.0)	(41.0)	
Loss on disposal activities				(41.0)				(41.0)	
Operating income		82.3		(27.0)		69.8		(69.7)	55.4
Gross profit as a % of revenue		4.3%		0.7%		6.6%		3.3%	

Reportable Segments:

Total assets										
December 31, 2016	\$	6,646.1	\$	3,516.1	\$	2,631.9	\$	714.9	\$	13,509.0
September 30, 2016		6,655.7		3,556.2		2,692.7		765.3		13,669.9

Table of Contents

16. Condensed Consolidating Financial Information

As discussed in Note 7, on October 6, 2014, AECOM issued \$800.0 million aggregate principal amount of its 2022 Notes and \$800.0 million aggregate principal amount of its 2024 Notes in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). AECOM filed a Registration Statement on Form S-4 relating to the offer to exchange the Notes for new 5.75% Senior Notes due 2022 and 5.875% Senior Notes due 2024 that was declared effective by the SEC on September 29, 2015. The Notes are fully and unconditionally guaranteed on a joint and several basis by certain of AECOM's directly and indirectly 100% owned subsidiaries (the Subsidiary Guarantors). Other than customary restrictions imposed by applicable statutes, there are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to AECOM in the form of cash dividends, loans or advances.

In connection with the registration of the exchange offer, AECOM became subject to the requirements of Rule 3-10 of Regulation S-X regarding financial statements of guarantors and issuers of guaranteed securities registered or being registered with the Securities and Exchange Commission. The following condensed consolidating financial information, which is presented for AECOM, the Subsidiary Guarantors on a combined basis and AECOM's non-guarantor subsidiaries on a combined basis, is provided to satisfy the disclosure requirements of Rule 3-10 of Regulation S-X.

Table of Contents**Condensed Consolidating Balance Sheets**

(unaudited in millions)

December 31, 2016

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	\$ 22.0	\$ 159.5	\$ 516.2	\$	\$ 697.7
Accounts receivable net		2,081.9	2,456.5		4,538.4
Intercompany receivable	737.9	105.0	135.5	(978.4)	
Prepaid expenses and other current assets	77.4	346.3	284.0		707.7
Income taxes receivable	12.0		18.7	10.6	41.3
TOTAL CURRENT ASSETS	849.3	2,692.7	3,410.9	(967.8)	5,985.1
PROPERTY AND EQUIPMENT NET	170.1	241.4	223.4		634.9
DEFERRED TAX ASSETS NET	282.8		112.4	(258.8)	136.4
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	5,976.3	1,289.2	58.1	(7,323.6)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	0.7	52.7	290.5		343.9
GOODWILL		3,318.6	2,465.8		5,784.4
INTANGIBLE ASSETS NET		317.2	132.6		449.8
OTHER NON-CURRENT ASSETS	8.4	28.4	137.7		174.5
TOTAL ASSETS	\$ 7,287.6	\$ 7,940.2	\$ 6,831.4	\$ (8,550.2)	\$ 13,509.0
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term debt	\$ 1.9	\$ 7.3	\$ 5.6	\$	\$ 14.8
Accounts payable	39.2	932.8	995.1		1,967.1
Accrued expenses and other current liabilities	105.8	1,074.9	987.8		2,168.5
Accrued taxes payable			0.1	10.6	10.7
Intercompany payable	88.2	837.0	171.1	(1,096.3)	
Billings in excess of costs on uncompleted contracts		239.4	420.9		660.3
Current portion of long-term debt	108.4	221.0	14.5		343.9
TOTAL CURRENT LIABILITIES	343.5	3,312.4	2,595.1	(1,085.7)	5,165.3
OTHER LONG-TERM LIABILITIES	112.3	321.5	585.8		1,019.6
DEFERRED TAX LIABILITY NET		271.7		(258.8)	12.9
NOTE PAYABLE INTERCOMPANY NON CURRENT			572.4	(572.4)	
LONG-TERM DEBT	3,455.0	278.7	17.6		3,751.3
TOTAL LIABILITIES	3,910.8	4,184.3	3,770.9	(1,916.9)	9,949.1
TOTAL AECOM STOCKHOLDERS EQUITY	3,376.8	3,755.9	2,879.0	(6,633.3)	3,378.4
Noncontrolling interests			181.5		181.5
TOTAL STOCKHOLDERS EQUITY	3,376.8	3,755.9	3,060.5	(6,633.3)	3,559.9
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 7,287.6	\$ 7,940.2	\$ 6,831.4	\$ (8,550.2)	\$ 13,509.0

Table of Contents**Condensed Consolidating Balance Sheets**

(unaudited - in millions)

September 30, 2016

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	\$ 1.8	\$ 183.7	\$ 506.6	\$	\$ 692.1
Accounts receivable net		2,034.0	2,497.5		4,531.5
Intercompany receivable	760.7	151.7	152.0	(1,064.4)	
Prepaid expenses and other current assets	98.7	336.2	295.2		730.1
Income taxes receivable	28.7		18.4		47.1
TOTAL CURRENT ASSETS	889.9	2,705.6	3,469.7	(1,064.4)	6,000.8
PROPERTY AND EQUIPMENT NET	169.3	236.5	239.2		645.0
DEFERRED TAX ASSETS NET	265.2		129.8	(223.5)	171.5
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	6,031.7	1,408.4	58.4	(7,498.5)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	0.7	48.6	281.2		330.5
GOODWILL		3,286.6	2,537.2		5,823.8
INTANGIBLE ASSETS NET		334.0	145.4		479.4
OTHER NON-CURRENT ASSETS	8.4	71.4	139.1		218.9
TOTAL ASSETS	\$ 7,365.2	\$ 8,091.1	\$ 7,000.0	\$ (8,786.4)	\$ 13,669.9
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term debt	\$ 3.1	\$ 7.3	\$ 15.9	\$	\$ 26.3
Accounts payable	45.8	907.0	958.1		1,910.9
Accrued expenses and other current liabilities	201.2	1,137.1	1,046.5		2,384.8
Accrued taxes payable			10.8		10.8
Intercompany payable	114.1	857.9	208.8	(1,180.8)	
Billings in excess of costs on uncompleted contracts		237.5	394.4		631.9
Current portion of long-term debt	108.2	222.1	9.7		340.0
TOTAL CURRENT LIABILITIES	472.4	3,368.9	2,644.2	(1,180.8)	5,304.7
OTHER LONG-TERM LIABILITIES	115.7	349.3	632.4		1,097.4
DEFERRED TAX LIABILITY NET		236.6		(223.5)	13.1
NOTE PAYABLE INTERCOMPANY NON CURRENT			563.5	(563.5)	
LONG-TERM DEBT	3,411.2	273.4	17.6		3,702.2
TOTAL LIABILITIES	3,999.3	4,228.2	3,857.7	(1,967.8)	10,117.4
TOTAL AECOM STOCKHOLDERS EQUITY	3,365.9	3,862.9	2,956.7	(6,818.6)	3,366.9
Noncontrolling interests			185.6		185.6
TOTAL STOCKHOLDERS EQUITY	3,365.9	3,862.9	3,142.3	(6,818.6)	3,552.5
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 7,365.2	\$ 8,091.1	\$ 7,000.0	\$ (8,786.4)	\$ 13,669.9

Table of Contents**Condensed Consolidating Statements of Operations**

(unaudited - in millions)

For the three months ended December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	\$	\$ 2,281.5	\$ 2,090.1	\$ (13.3)	\$ 4,358.3
Cost of Revenue		2,161.3	2,040.3	(13.3)	4,188.3
Gross Profit		120.2	49.8		170.0
Equity in earnings from subsidiaries	120.3	(0.1)	0.7	(120.9)	
Equity in earnings of joint ventures		9.9	11.5		21.4
General and administrative expenses	(32.6)				(32.6)
Acquisition and integration expenses	(15.4)				(15.4)
Income from operations	72.3	130.0	62.0	(120.9)	143.4
Other income	0.4	7.6	2.9	(10.1)	0.8
Interest expense	(47.8)	(5.7)	(10.2)	10.1	(53.6)
Income before income tax (benefit) expense	24.9	131.9	54.7	(120.9)	90.6
Income tax (benefit) expense	(22.3)	35.9	11.2		24.8
Net income	47.2	96.0	43.5	(120.9)	65.8
Noncontrolling interest in income of consolidated subsidiaries, net of tax			(18.6)		(18.6)
Net income attributable to AECOM	\$ 47.2	\$ 96.0	\$ 24.9	\$ (120.9)	\$ 47.2

For the three months ended December 31, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	\$	\$ 2,236.3	\$ 2,094.2	\$ (32.8)	\$ 4,297.7
Cost of Revenue		2,182.5	2,007.1	(32.8)	4,156.8
Gross Profit		53.8	87.1		140.9
Equity in earnings from subsidiaries	54.9	(40.3)	0.8	(15.4)	
Equity in earnings of joint ventures		4.5	20.7		25.2
General and administrative expenses	(27.6)	(1.1)			(28.7)
Acquisition and integration expenses	(41.0)				(41.0)
Loss on disposal activities			(41.0)		(41.0)
(Loss) income from operations	(13.7)	16.9	67.6	(15.4)	55.4
Other income	0.8	8.9	2.5	(9.2)	3.0
Interest expense	(53.3)	(5.7)	(9.7)	9.2	(59.5)
(Loss) income before income tax (benefit) expense	(66.2)	20.1	60.4	(15.4)	(1.1)
Income tax (benefit) expense	(45.8)	18.1	14.2	12.8	(0.7)
Net (loss) income	(20.4)	2.0	46.2	(28.2)	(0.4)
Noncontrolling interest in income of consolidated subsidiaries, net of tax			(20.0)		(20.0)
Net (loss) income attributable to AECOM	\$ (20.4)	\$ 2.0	\$ 26.2	\$ (28.2)	\$ (20.4)

Table of Contents**Consolidating Statements of Comprehensive Income (Loss)**

(unaudited - in millions)

	For the three months ended December 31, 2016					Total
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations		
Net income	\$ 47.2	\$ 96.0	\$ 43.5	\$ (120.9)	\$	65.8
Other comprehensive income (loss), net of tax:						
Net unrealized gain (loss) on derivatives, net of tax	2.9		(1.5)			1.4
Foreign currency translation adjustments			(73.9)			(73.9)
Pension adjustments, net of tax	0.6		16.3			16.9
Other comprehensive income (loss), net of tax	3.5		(59.1)			(55.6)
Comprehensive income (loss), net of tax	50.7	96.0	(15.6)	(120.9)		10.2
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax			(18.3)			(18.3)
Comprehensive income (loss) attributable to AECOM, net of tax	\$ 50.7	\$ 96.0	\$ (33.9)	\$ (120.9)	\$	(8.1)

	For the three months ended December 31, 2015					Total
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations		
Net (loss) income	\$ (20.4)	\$ 2.0	\$ 46.2	\$ (28.2)	\$	(0.4)
Other comprehensive income (loss), net of tax:						
Net unrealized gain on derivatives, net of tax	3.9		1.4			5.3
Foreign currency translation adjustments			(97.7)			(97.7)
Pension adjustments, net of tax	0.6	(4.7)	4.8			0.7
Other comprehensive income (loss), net of tax	4.5	(4.7)	(91.5)			(91.7)
Comprehensive loss, net of tax	(15.9)	(2.7)	(45.3)	(28.2)		(92.1)
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax			(18.3)			(18.3)
Comprehensive loss attributable to AECOM, net of tax	\$ (15.9)	\$ (2.7)	\$ (63.6)	\$ (28.2)	\$	(110.4)

Table of Contents**Condensed Consolidating Statements of Cash Flows**

(unaudited - in millions)

	For the three months ended December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (27.0)	\$ 83.2	\$ 21.3	\$	\$ 77.5
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net investment in unconsolidated joint ventures		(0.8)	(17.3)		(18.1)
Net purchase of investments			0.3		0.3
Payments for capital expenditures, net of disposals	(7.2)	(9.7)	(4.1)		(21.0)
Net investment in intercompany notes	(0.5)	(8.7)	(1.2)	10.4	
Other intercompany investing activities	32.1	14.4		(46.5)	
Net cash provided by (used in) investing activities	24.4	(4.8)	(22.3)	(36.1)	(38.8)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings under credit agreements	1,634.2		0.6		1,634.8
Repayments of borrowings under credit agreements	(1,595.2)	(6.4)	(5.8)		(1,607.4)
Proceeds from issuance of common stock	9.9				9.9
Proceeds from exercise of stock options	2.1				2.1
Payments to repurchase common stock	(17.5)				(17.5)
Net distributions to noncontrolling interests			(21.9)		(21.9)
Other financing activities	(10.7)	(65.5)	49.8		(26.4)
Net borrowings on intercompany notes		1.1	9.3	(10.4)	
Other intercompany financing activities		(31.8)	(14.7)	46.5	
Net cash provided by (used in) financing activities	22.8	(102.6)	17.3	36.1	(26.4)
EFFECT OF EXCHANGE RATE CHANGES ON CASH			(6.7)		(6.7)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20.2	(24.2)	9.6		5.6
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1.8	183.7	506.6		692.1
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 22.0	\$ 159.5	\$ 516.2	\$	\$ 697.7

	For the three months ended December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (265.1)	\$ 295.0	\$ 48.1	\$	\$ 78.0
CASH FLOWS FROM INVESTING ACTIVITIES:					

Edgar Filing: AECOM - Form 10-Q

Proceeds from disposal of businesses and property			37.6		37.6
Net investment in unconsolidated joint ventures	(0.5)		(7.2)		(7.7)
Net sales of investments			11.0		11.0
Payments for capital expenditures, net of disposals	(5.3)	(9.0)	13.4		(0.9)
Receipts from intercompany notes receivable	7.0	39.7		(46.7)	
Other intercompany investing activities	342.4	21.9		(364.3)	
Net cash used in investing activities	344.1	52.1	54.8	(411.0)	40.0
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings under credit agreements	1,220.7		2.0		1,222.7
Repayments of borrowings under credit agreements	(1,283.8)	(5.8)	(15.3)		(1,304.9)
Cash paid for debt and equity issuance costs	(1.2)				(1.2)
Proceeds from issuance of common stock	6.9				6.9
Proceeds from exercise of stock options	3.0				3.0
Payments to repurchase common stock	(17.3)				(17.3)
Excess tax benefit from share-based payment	3.3				3.3
Net distributions to noncontrolling interests			(37.8)		(37.8)
Other financing activities	(9.7)	(31.7)	28.4		(13.0)
Intercompany notes repayments			(46.7)	46.7	
Other intercompany financing activities		(339.7)	(24.6)	364.3	
Net cash used in financing activities	(78.1)	(377.2)	(94.0)	411.0	(138.3)
EFFECT OF EXCHANGE RATE CHANGES ON CASH					
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	0.9	(30.1)	3.3		(25.9)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1.3	162.4	520.2		683.9
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2.2	\$ 132.3	\$ 523.5	\$	\$ 658.0

Table of Contents

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

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 that are not limited to historical facts, but reflect the Company's current beliefs, expectations or intentions regarding future events. These statements include forward-looking statements with respect to the Company, including the Company's business and operations, and the engineering and construction industry. Statements that are not historical facts, without limitation, including statements that use terms such as anticipates, believes, expects, intends, plans, projects, and will and that relate to our plans and objectives for future operations, are forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this Quarterly Report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. 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, the fact that our business is cyclical and vulnerable to economic downturns and reduction in government and private industry spending; our dependence on long-term government contracts, which are subject to uncertainties concerning the government's budgetary approval process; the possibility that our government contracts may be terminated by the government; the risk of employee misconduct or our failure to comply with laws and regulations; legal, security, political, and economic risks in the countries in which we operate; maintaining adequate surety and financial capacity; competition in our industry; cyber security breaches; information technology interruptions or data losses; liabilities under environmental laws; fluctuations in demand for oil and gas services; our substantial indebtedness; covenant restrictions in our indebtedness; the ability to retain key personnel; changes in financial markets, interest rates and foreign currency exchange rates; global tax compliance, and those additional risks and factors discussed in this Quarterly Report on Form 10-Q and any subsequent reports we file with the SEC. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement.

All subsequent written and oral forward-looking statements concerning the Company or other matters attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above. You are cautioned not to place undue reliance on these forward-looking statements, which speak only to the date they are made. The Company is under no obligation (and expressly disclaims any such obligation) to update or revise any forward-looking statement that may be made from time to time, whether as a result of new information, future developments or otherwise. Please review Part II, Item 1A Risk Factors in this Quarterly Report for a discussion of the factors, risks and uncertainties that could affect our future results.

Overview

We are a leading provider of planning, consulting, architectural and engineering design services for public and private clients around the world. We provide our services in a broad range of end markets.

Our business focuses primarily on providing fee-based planning, consulting, architectural and engineering design 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.

Edgar Filing: AECOM - Form 10-Q

We report our business through three segments: Design and Consulting Services (DCS), Construction Services (CS), and Management Services (MS). Such segments are organized by the types of services provided, the differing specialized needs of the respective clients, and how we manage the business. We have aggregated various operating segments into our reportable segments 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.

Our DCS segment delivers planning, consulting, architectural and engineering design services to commercial and government clients worldwide in major end markets such as transportation, facilities, environmental, energy, water and government. DCS revenue is primarily derived from fees from services that we provide, as opposed to pass-through costs from subcontractors.

Our CS segment provides construction services, including building construction and energy, infrastructure and industrial construction, primarily in the Americas. CS revenue typically includes a significant amount of pass-through costs from subcontractors.

Our MS segment provides program and facilities management and maintenance, training, logistics, consulting, technical assistance, and systems integration and information technology services, primarily for agencies of the U.S. government and also for national governments around the world. MS revenue typically includes a significant amount of pass-through costs from subcontractors.

Table of Contents

During the first quarter of fiscal year 2017, an operation and maintenance related entity previously reported within our CS segment was realigned within our MS segment to reflect present management oversight. Accordingly, approximately \$33 million of revenue and \$32 million of cost of revenue was reclassified for the quarter ended December 31, 2015 to conform to the current period presentation.

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

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

Commodity price volatility has negatively impacted our oil and gas business especially in North American and other petro-dollar funded markets and future projects may be deferred, suspended or terminated.

In December 2015, the federal legislation referred to as the Fixing America's Surface Transportation Act (the FAST Act) was authorized. The FAST Act is a five-year federal program expected to provide infrastructure spending on roads, bridges, and public transit and rail systems. While client spending patterns are likely to remain uneven, we expect that the passage of the FAST Act will positively impact our transportation services business in the next several years.

Our MS segment fiscal 2016 results benefited from favorable project, pension and legal resolutions, which we do not expect to repeat in fiscal 2017. Also, the MS segment wound down several government projects in fiscal 2016, such as our contract to manage the Sellafield nuclear site in the United Kingdom, which could impact near-term performance.

In 2017, the federal government proposed significant legislative and executive infrastructure initiatives that could have a positive impact to our infrastructure business.

We expect to benefit from the return on a portion of our AECOM Capital investments in the next twelve months.

We cannot determine if future climate change and greenhouse gas laws and policies, such as the United Nations COP-21 Paris Agreement, will have a material impact on our business or our clients' business; however, we expect future environmental laws and policies could negatively impact demand for our services related to fossil fuel projects and positively impact demand for our services related to environmental, infrastructure, nuclear and alternative energy projects.

Table of Contents**Results of Operations***Three months ended December 31, 2016 compared to the three months ended December 31, 2015*Consolidated Results

	December 31, 2016	Three Months Ended		Change	
		December 31, 2015	(in millions)		\$
Revenue	\$ 4,358.3	\$ 4,297.7	\$	60.6	1.4%
Cost of revenue	4,188.3	4,156.8		31.5	0.8
Gross profit	170.0	140.9		29.1	20.7
Equity in earnings of joint ventures	21.4	25.2		(3.8)	(15.1)
General and administrative expenses	(32.6)	(28.7)		(3.9)	13.6
Acquisition and integration expenses	(15.4)	(41.0)		25.6	(62.4)
Loss on disposal activities		(41.0)		41.0	(100.0)
Income from operations	143.4	55.4		88.0	158.8
Other income	0.8	3.0		(2.2)	(73.3)
Interest expense	(53.6)	(59.5)		5.9	(9.9)
Income (loss) before income tax expense (benefit)	90.6	(1.1)		91.7	NM
Income tax expense (benefit)	24.8	(0.7)		25.5	NM
Net income (loss)	65.8	(0.4)		66.2	NM
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(18.6)	(20.0)		1.4	(7.0)
Net income (loss) attributable to AECOM	\$ 47.2	\$ (20.4)	\$	67.6	(331.4)%

NM not meaningful

The following table presents the percentage relationship of certain items to revenue:

	Three Months Ended	
	December 31, 2016	December 31, 2015
Revenue	100.0%	100.0%
Cost of revenue	96.1	96.7
Gross margin	3.9	3.3
Equity in earnings of joint ventures	0.5	0.6
General and administrative expenses	(0.7)	(0.6)
Acquisition and integration expenses	(0.4)	(1.0)
Loss on disposal activities	0.0	(1.0)
Income from operations	3.3	1.3
Other income	0.0	0.1

Edgar Filing: AECOM - Form 10-Q

Interest expense	(1.2)	(1.4)
Income (loss) before income tax expense (benefit)	2.1	(0.0)
Income tax expense (benefit)	0.6	(0.0)
Net income (loss)	1.5	(0.0)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.4)	(0.5)
Net income (loss) attributable to AECOM	1.1%	(0.5)%

Revenue

Our revenue for the three months ended December 31, 2016 increased \$60.6 million, or 1.4%, to \$4,358.3 million as compared to \$4,297.7 million for the corresponding period last year.

The increase in revenue for the three months ended December 31, 2016 was primarily attributable to the changes noted in the DCS, CS, and MS Reportable Segments below.

Table of Contents

In the course of providing our services, we routinely subcontract for services and incur other direct costs on behalf of our clients. These costs are passed through to clients and, in accordance with industry practice and GAAP, are included in our revenue and cost of revenue. Because subcontractor and other direct costs can change significantly from project to project and period to period, changes in revenue may not be indicative of business trends. Subcontractor and other direct costs for the quarters ended December 31, 2016 and 2015 were \$2.3 billion and \$2.1 billion, respectively. Subcontractor costs and other direct costs as a percentage of revenue, increased to 52% during the quarter ended December 31, 2016 from 48% during the quarter ended December 31, 2015 due to increased building construction in our CS reportable segment, as discussed below.

Gross Profit

Our gross profit for the three months ended December 31, 2016 increased \$29.1 million, or 20.7%, to \$170.0 million as compared to \$140.9 million for the corresponding period last year.

Billings in excess of costs on uncompleted contracts includes a margin fair value liability associated with long-term contracts acquired in connection with the acquisition of URS on October 17, 2014. Revenue and the related income from operations related to the margin fair value liability recognized during the three months ended December 31, 2016 was \$1.6 million, compared with \$15.1 million during the three months ended December 31, 2015. This amount is offset by amortization of intangible assets of \$25.4 million during the three months ended December 31, 2016, compared with \$59.0 million during the three months ended December 31, 2015.

Gross profit changes were also due to the reasons noted in DCS, CS and MS Reportable Segments below.

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended December 31, 2016 was \$21.4 million as compared to \$25.2 million in the corresponding period last year.

The decrease in earnings of joint ventures for the three months ended December 31, 2016 was primarily due to decreased earnings from a United Kingdom nuclear cleanup project.

General and Administrative Expenses

Our general and administrative expenses for the three months ended December 31, 2016 increased \$3.9 million, or 13.6%, to \$32.6 million as compared to \$28.7 million for the corresponding period last year. As a percentage of revenue, general and administrative expenses increased to 0.7% of revenue for the three months ended December 31, 2016 from 0.6% in the corresponding period last year.

The increase in our general and administrative expenses is primarily due to increased personnel costs.

Acquisition and Integration Expenses

Acquisition and integration expenses, relating to the acquisition of URS, were comprised of the following:

	Three months ended	
	December 31, 2016	December 31, 2015
	(in millions)	
Severance and personnel costs	\$ 11.5	\$ 6.6
Professional service, real estate-related, and other expenses	3.9	34.4
Total	\$ 15.4	\$ 41.0

Severance and personnel costs above include employee termination costs related to the integration of URS. Real estate expenses relate to costs incurred to exit redundant facilities as a result of the URS integration. Professional services and other expenses relate to integration activities such as consolidating and implementing our IT platforms. The severance, real estate, and other disposal activities commenced upon the acquisition of URS and are expected to result in estimated annual costs savings of approximately \$325 million by the end of fiscal 2017.

As of December 31, 2016, our annual run-rate was approximately \$300 million in cost savings. Incremental cost savings to achieve our \$325 million cost savings target are expected to come from a combination of labor and non-labor cost savings. As of December 31, 2016, we had realized approximately \$240 million in cumulative labor-related cost savings and approximately \$200 million in cumulative real estate-related and all other non-labor cost savings. These cost savings are materially consistent with our prior expectations with respect to amounts and timing.

Table of Contents

Loss on Disposal Activities

Loss on disposal activities for the three months ended December 31, 2016 was \$0 compared to \$41.0 million for the corresponding period last year.

Other Income

Our other income for the three months ended December 31, 2016 decreased to \$0.8 million from \$3.0 million for the corresponding period last year.

Interest Expense

Our interest expense for the three months ended December 31, 2016 decreased to \$53.6 million as compared to \$59.5 million for the corresponding period last year.

Income Tax Expense / Benefit

Our income tax expense for the three months ended December 31, 2016 was \$24.8 million compared to an income tax benefit of \$0.7 million for the corresponding period last year. Due to nearly breakeven results of pretax loss for the first quarter of 2016, a comparison of the tax benefit and effective tax rates between the first quarter of 2017 and the first quarter of 2016 is not meaningful. Included in the first quarter of 2017 income tax expense is a \$4.1 million benefit of the effect of the favorable tax impacts of changes in the geographical mix of income, and a benefit related to noncontrolling interests, partially offset by an increase in valuation allowances regarding the realizability of certain current year foreign losses. All these items are expected to have a continuing impact on the effective tax rate for the remainder of the fiscal year.

During the first quarter of 2016, President Obama signed *The Protecting Americans from Tax Hikes Act* into law. This legislation extended various temporary tax provisions that would have otherwise expired on December 31, 2015, including the permanent extension of the United States federal research credit. We recognized a discrete net benefit in the first quarter of 2016 for \$10.1 million, attributable to the retroactive impact of the extended provisions.

Based on a review of positive and negative evidence available to us, we have previously recorded valuation allowances against our deferred tax assets in the United Kingdom and Canada to reduce them to the amount that in our judgment is more likely than not realizable. As of the first

Edgar Filing: AECOM - Form 10-Q

quarter of 2017, valuation allowances remain until further positive evidence is obtained and these valuation allowances can be released.

Given the current and forecasted earnings trend, and anticipated coming out of cumulative losses in recent years for the remainder of our legal entities in the United Kingdom, sufficient positive evidence in the form of sustained earnings may become available in 2017 to release all (approximately \$55 million) or a portion of the related valuation allowance in the United Kingdom for those remaining legal entities. A reversal could result in a significant benefit to tax expense in the quarter released.

Certain operations in Canada continue to have losses and the associated valuation allowances could be reduced if and when our current and forecast profits trend turns and sufficient evidence exists to support the release of the related valuation allowance (approximately \$20 million).

We regularly integrate and consolidate our business operations and legal entity structure, and such internal initiatives could impact the assessment of uncertain tax positions, indefinite reinvestment assertions and the realizability of deferred tax assets.

Net Income / Loss Attributable to AECOM

The factors described above resulted in net income attributable to AECOM of \$47.2 million for the three months ended December 31, 2016 as compared to net loss attributable to AECOM of \$20.4 million for the three months ended December 31, 2015.

Table of Contents**Results of Operations by Reportable Segment:****Design and Consulting Services**

	December 31, 2016	Three Months Ended December 31, 2015		Change	
		(in millions)		\$	%
Revenue	\$ 1,840.8	\$ 1,862.1	\$ (21.3)	(1.1)%	
Cost of revenue	1,745.6	1,782.8	(37.2)	(2.1)	
Gross profit	\$ 95.2	\$ 79.3	\$ 15.9	20.1%	

The following table presents the percentage relationship of certain items to revenue:

	Three Months Ended	
	December 31, 2016	December 31, 2015
Revenue	100.0%	100.0%
Cost of revenue	94.8	95.7
Gross profit	5.2%	4.3%

Revenue

Revenue for our DCS segment for the three months ended December 31, 2016 decreased \$21.3 million, or 1.1%, to \$1,840.8 million as compared to \$1,862.1 million for the corresponding period last year.

The decrease in revenue for the three months ended December 31, 2016 was primarily attributable to a negative foreign currency impact of \$30 million mostly due to the strengthening of the U.S. dollar against the British Pound, partially offset by increases in Asia Pacific and the Americas.

Gross Profit

Gross profit for our DCS segment for the three months ended December 31, 2016 increased \$15.9 million, or 20.1%, to \$95.2 million as compared to \$79.3 million for the corresponding period last year. As a percentage of revenue, gross profit increased to 5.2% of revenue for the three months ended December 31, 2016 from 4.3% in the corresponding period last year.

Edgar Filing: AECOM - Form 10-Q

The increase in gross profit and gross profit as a percentage of revenue for the quarter ended December 31, 2016 was primarily attributable to decreased intangible amortization expense, net of the margin fair value adjustment of \$21.3 million, primarily from URS.

Construction Services

	December 31, 2016	Three Months Ended December 31, 2015		Change	
		(in millions)		\$	%
Revenue	\$ 1,750.2	\$ 1,678.6	\$ 71.6	4.3%	
Cost of revenue	1,736.4	1,667.2	69.2	4.2	
Gross profit	\$ 13.8	\$ 11.4	\$ 2.4	21.1%	

The following table presents the percentage relationship of certain items to revenue:

	Three Months Ended	
	December 31, 2016	December 31, 2015
Revenue	100.0%	100.0%
Cost of revenue	99.2	99.3
Gross profit	0.8%	0.7%

Table of Contents

Revenue

Revenue for our CS segment for the three months ended December 31, 2016 increased \$71.6 million, or 4.3%, to \$1,750.2 million as compared to \$1,678.6 million for the corresponding period last year.

The increase in revenue for the three months ended December 31, 2016 was primarily attributable to the inclusion of revenues from an entity acquired at the end of fiscal year 2016, and increases across our building construction business in the Americas.

Gross Profit

Gross profit for our CS segment for the three months ended December 31, 2016 increased \$2.4 million, or 21.1%, to \$13.8 million as compared to \$11.4 million for the corresponding period last year.

Management Services

	December 31, 2016	Three Months Ended December 31, 2015		Change	
		(in millions)		\$	%
Revenue	\$ 767.3	\$ 757.0	\$ 10.3	1.4%	
Cost of revenue	706.3	706.8	(0.5)	(0.1)	
Gross profit	\$ 61.0	\$ 50.2	\$ 10.8	21.5%	

The following table presents the percentage relationship of certain items to revenue:

	Three Months Ended	
	December 31, 2016	December 31, 2015
Revenue	100.0%	100.0%
Cost of revenue	92.1	93.4
Gross profit	7.9%	6.6%

Revenue

Edgar Filing: AECOM - Form 10-Q

Revenue for our MS segment for the three months ended December 31, 2016 increased \$10.3 million, or 1.4%, to \$767.3 million as compared to \$757.0 million for the corresponding period last year.

The increase in revenue for the quarter ended December 31, 2016 was primarily due to various projects with the U.S. government.

Gross Profit

Gross profit for our MS segment for the three months ended December 31, 2016 increased \$10.8 million, or 21.5%, to \$61.0 million as compared to \$50.2 million for the corresponding period last year. As a percentage of revenue, gross profit increased to 7.9% of revenue for the three months ended December 31, 2016 from 6.6% in the corresponding period last year.

Gross profit and gross profit as a percentage of revenue for the three months ended December 31, 2016 benefited by approximately \$35 million from the settlement of the Waste Treatment Plant qui tam civil lawsuit filed pursuant to the federal False Claims Act, net of legal fees. The benefit from this item was partially offset by a favorable adjustment from an acquisition related environmental legal matter of \$13.2 million (\$10.1 million, net of noncontrolling interests) as well as a \$6.8 million pension curtailment gain, both occurring in the three months ended December 31, 2015.

Seasonality

We experience seasonal trends in our business. The first quarter of our fiscal year (October 1 to December 31) is typically our weakest quarter. The harsher weather conditions impact our ability to complete work in parts of North America and the holiday season schedule affects our productivity during this period. 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.

Table of Contents

Liquidity and Capital Resources

Cash Flows

Our principal sources of liquidity are cash flows from operations, borrowings under our credit facilities, 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.

Generally, we do not provide for U.S. taxes or foreign withholding taxes on gross book-tax basis differences in our non-U.S. subsidiaries because such basis differences are able to and intended to be reinvested indefinitely. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. We have a deferred tax liability in the amount of \$113.2 million relating to certain foreign subsidiaries for which the basis difference is not intended to be reinvested indefinitely as part of the liabilities assumed in connection with the acquisition of URS. Based on the available sources of cash flows discussed above, we anticipate we will continue to have the ability to permanently reinvest these remaining amounts.

At December 31, 2016, cash and cash equivalents were \$697.7 million, an increase of \$5.6 million, or 0.8%, from \$692.1 million at September 30, 2016. The increase in cash and cash equivalents was primarily attributable to cash provided by operating activities and net borrowings under credit agreements, partially offset by payments for capital expenditures, net distributions to noncontrolling interest, and investment in unconsolidated joint ventures.

Net cash provided by operating activities was \$77.5 million for the three months ended December 31, 2016, materially unchanged from \$78.1 million for the three months ended December 31, 2015. The decrease was primarily attributable to the timing of receipts and payments of working capital, which include accounts receivable, accounts payable, accrued expenses, and billings in excess of costs on uncompleted contracts. The sale of trade receivables to financial institutions during the three months ended December 31, 2016 provided a net benefit of \$19.3 million as compared to \$27.3 million during the three months ended December 31, 2015. We expect to continue to sell trade receivables in the future as long as the terms continue to remain favorable to the Company.

Net cash used in investing activities was \$38.8 million for the three months ended December 31, 2016, as compared to net cash provided by investing activities of \$40.0 million for the three months ended December 31, 2015. This change was primarily attributable to proceeds from disposal of businesses and proceeds from disposal of property and equipment during the three months ended December 31, 2015.

Net cash used in financing activities was \$26.4 million for the three months ended December 31, 2016 as compared to \$138.3 million for the three months ended December 31, 2015. This change was primarily attributable to net borrowings under credit agreements of \$27.4 million for the three months ended December 31, 2016 as compared to \$82.2 million net repayments of borrowings under credit agreements for the three months ended December 31, 2015. Approximately \$179.7 million of the 2017 URS Senior Notes are due in April 2017 and we expect to pay off the 2017 URS Senior Notes from cash flow from operations, borrowings under our Credit Agreement or capital market financings.

Acquisition and Integration Expenses

Acquisition and integration expenses comprised of the following (in millions):

	Three months ended Dec 31,	
	2016	2015
Severance and personnel costs	\$ 11.5	\$ 6.6
Professional service, real estate-related, and other expenses	3.9	34.4
Total	\$ 15.4	\$ 41.0

Table of Contents

We expect to incur approximately \$30 million of acquisition and integration expenses in fiscal 2017.

Working Capital

Working capital, or current assets less current liabilities, increased \$123.8 million, or 17.8%, to \$819.8 million at December 31, 2016 from \$696.0 million at September 30, 2016. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, decreased \$21.4 million, or 0.5%, to \$3,878.1 million at December 31, 2016 from \$3,899.5 million at September 30, 2016.

Days Sales Outstanding (DSO), which includes accounts receivable, net of billings in excess of costs on uncompleted contracts, and excludes the effects of recent acquisitions, was 81 days at December 31, 2016 compared to 82 days at September 30, 2016.

In Note 4, Accounts Receivable Net, in the notes to our consolidated financial statements, a comparative analysis of the various components of accounts receivable is provided. Substantially all unbilled receivables are expected to be billed and collected within twelve months.

Unbilled receivables related to claims are recorded 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, revenue is recorded only to the extent that contract costs relating to the claim have been incurred. Other than as disclosed, there are no material net receivables related to contract claims as of December 31, 2016 and September 30, 2016. Award fees in unbilled receivables are accrued only when there is sufficient information to assess contract performance. On contracts that represent higher than normal risk or technical difficulty, award fees are generally deferred 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 payment is received (in some cases in the form of advances) from the customers.

Debt

Debt consisted of the following:

	December 31, 2016	September 30, 2016
	(in millions)	
2014 Credit Agreement	\$ 1,996.1	\$ 1,954.9

Edgar Filing: AECOM - Form 10-Q

2014 Senior Notes	1,600.0	1,600.0
URS Senior Notes	427.3	427.7
Other debt	140.6	142.7
Total debt	4,164.0	4,125.3
Less: Current portion of debt and short-term borrowings	(358.7)	(366.3)
Less: Unamortized debt issuance costs	(54.0)	(56.8)
Long-term debt	\$ 3,751.3	\$ 3,702.2

The following table presents, in millions, scheduled maturities of our debt as of December 31, 2016:

Fiscal Year	
2017 (nine months remaining)	\$ 324.8
2018	128.6
2019	119.6
2020	114.2
2021	1,524.5
Thereafter	1,952.3
Total	\$ 4,164.0

2014 Credit Agreement

We entered into a credit agreement (Credit Agreement) on October 17, 2014, as amended, consisting of (i) a term loan A facility in an aggregate principal amount of \$1.925 billion, (ii) a term loan B facility in an aggregate principal amount of \$0.76 billion, and (iii) a revolving credit facility in an aggregate principal amount of \$1.05 billion. These facilities under the Credit Agreement may be increased by an additional amount of up to \$500 million. The Credit Agreement's term extends to September 29, 2021 with respect to the revolving credit facility and the term loan A facility and October 17, 2021 with respect to the term loan B facility. Some subsidiaries of the Company (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers' obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of certain conditions specified in the Credit Agreement and Security Agreement.

Table of Contents

The Credit Agreement contains covenants that limit our ability and certain of our subsidiaries to, among other things: (i) create, incur, assume, or suffer to exist liens; (ii) incur or guarantee indebtedness; (iii) pay dividends or repurchase stock; (iv) enter into transactions with affiliates; (v) consummate asset sales, acquisitions or mergers; (vi) enter into certain types of burdensome agreements; or (vii) make investments.

On July 1, 2015, the Credit Agreement was amended to revise the definition of Consolidated EBITDA to increase the allowance for acquisition and integration expenses related to the acquisition of URS.

On December 22, 2015, the Credit Agreement was amended to further revise the definition of Consolidated EBITDA by further increasing the allowance for acquisition and integration expenses related to the acquisition of URS and to allow for an internal corporate restructuring primarily involving its international subsidiaries.

On September 29, 2016, the Credit Agreement and the Security Agreement were amended to (1) lower the applicable interest rate margins for the term loan A and the revolving credit facilities, and lower the applicable letter of credit fees and commitment fees to the revised consolidated leverage levels; (2) extend the term of the term loan A and the revolving credit facility to September 29, 2021; (3) add a new delayed draw term loan A facility tranche in the amount of \$185.0 million; (4) replace the then existing \$500 million performance letter of credit facility with a \$500 million basket to enter into secured letters of credit outside the Credit Agreement; and (5) revise certain covenants, including the Maximum Consolidated Leverage Ratio so that the step down from a 5.00 to a 4.75 leverage ratio is effective as of March 31, 2017 as well as the investment basket for our AECOM Capital business.

Under the Credit Agreement, we are subject to a maximum consolidated leverage ratio and minimum consolidated interest coverage ratio at the end of each fiscal quarter. Our Consolidated Leverage Ratio was 4.4 at December 31, 2016. Our Consolidated Interest Coverage Ratio was 4.6 at December 31, 2016. As of December 31, 2016, we were in compliance with the covenants of the Credit Agreement.

At December 31, 2016 and September 30, 2016, outstanding standby letters of credit totaled \$51.4 million and \$92.3 million, respectively, under our revolving credit facilities. As of December 31, 2016 and September 30, 2016, we had \$862.1 million and \$888.4 million, respectively, available under our revolving credit facility.

2014 Senior Notes

On October 6, 2014, we completed a private placement offering of \$800,000,000 aggregate principal amount of the 5.750% Senior Notes due 2022 (2022 Notes) and \$800,000,000 aggregate principal amount of the 5.875% Senior Notes due 2024 (the 2024 Notes and, together with the 2022 Notes, the 2014 Senior Notes or Notes).

As of December 31, 2016, the estimated fair value of the 2014 Senior Notes was approximately \$842.0 million for the 2022 Notes and \$848.0 million for the 2024 Notes. The fair value of the Notes as of December 31, 2016 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of its Notes.

At any time prior to October 15, 2017, we may redeem all or part of the 2022 Notes, at a redemption price equal to 100% of their principal amount, plus a make whole premium as of the redemption date, and accrued and unpaid interest (subject to the rights of holders of record on the relevant record date to receive interest due on the relevant interest payment date). In addition, at any time prior to October 15, 2017, we may redeem up to 35% of the original aggregate principal amount of the 2022 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 105.750%, plus accrued and unpaid interest. Furthermore, at any time on or after October 15, 2017, we may redeem the 2022 Notes, in whole or in part, at once or over time, at the specified redemption prices plus accrued and unpaid interest thereon to the redemption date. At any time prior to July 15, 2024, we may redeem on one or more occasions all or part of the 2024 Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of the redemption, plus any accrued and unpaid interest to the date of redemption. In addition, on or after July 15, 2024, the 2024 Notes may be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

Table of Contents

The indenture pursuant to which the 2014 Senior Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide certain notices thereunder and certain provisions related to bankruptcy events. The indenture also contains customary negative covenants.

In connection with the offering of the Notes, the Company and the Guarantors entered into a Registration Rights Agreement, dated as of October 6, 2014 to exchange the Notes for registered notes having terms substantially identical in all material respects (except certain transfer restrictions, registration rights and additional interest provisions relating to the Notes will not apply to the registered notes). We filed an initial registration statement on Form S-4 with the SEC on July 6, 2015 that was declared effective by the SEC on September 29, 2015. On November 2, 2015, we completed our exchange offer which exchanged the Notes for the registered notes, as well as all related guarantees.

We were in compliance with the covenants relating to the Notes as of December 31, 2016.

URS Senior Notes

In connection with the URS acquisition, we assumed URS's 3.85% Senior Notes due 2017 (2017 URS Senior Notes) and its 5.00% Senior Notes due 2022 (2022 URS Senior Notes), totaling \$1.0 billion (URS Senior Notes). The URS acquisition triggered change in control provisions in the URS Senior Notes that allowed the holders of the URS Senior Notes to redeem their URS Senior Notes at a cash price equal to 101% of the principal amount and, accordingly, we redeemed \$572.3 million of the URS Senior Notes on October 24, 2014. The URS Senior Notes are general unsecured senior obligations of AECOM Global II, LLC (as successor in interest to URS) and URS Fox US LP and are fully and unconditionally guaranteed on a joint-and-several basis by certain former URS domestic subsidiary guarantors.

As of December 31, 2016, the estimated fair value of the URS Senior Notes was approximately \$179.2 million for the 2017 URS Senior Notes and \$251.0 million for the 2022 URS Senior Notes. The carrying value of the URS Senior Notes on our Consolidated Balance Sheets as of December 31, 2016 was \$179.7 million for the 2017 URS Senior Notes and \$247.6 million for the 2022 URS Senior Notes. The fair value of the URS Senior Notes as of December 31, 2016 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the URS Senior Notes.

As of December 31, 2016, we were in compliance with the covenants relating to the URS Senior Notes.

Other Debt

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. Our unsecured credit facilities are primarily used for standby letters of credit issued for payment of performance guarantees. At December 31, 2016 and September 30, 2016, these outstanding standby letters of credit totaled \$413.5 million and \$382.2 million, respectively. As of December 31, 2016, we had \$534.9 million available under these unsecured credit facilities.

Effective Interest Rate

Our average effective interest rate on our total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2016 and 2015 was 4.2% and 4.2%, respectively.

Joint Venture Arrangements and Other Commitments

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 have control. For all others, our portion of the earnings is recorded in equity in earnings of joint ventures. See Note 5 in the notes to our consolidated financial statements.

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, amounts we may expend to repurchase stock under our stock repurchase program and acquisitions from time to time, we currently do not have any significant capital expenditures or outlays planned except as described below. However, if we acquire additional businesses in the future or if we embark on other capital-intensive initiatives, additional working capital may be required.

Table of Contents

Under our secured revolving credit facility and other facilities discussed in Other Debt above, as of December 31, 2016, there was approximately \$464.9 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 our pension benefit plans. The total amounts of employer contributions paid for the three months ended December 31, 2016 were \$2.6 million for U.S. plans and \$5.7 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. There is a required minimum contribution for one of 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. In addition, we have collective bargaining agreements with unions that require us to contribute to various third party multiemployer pension plans that we do not control or manage.

New Accounting Pronouncements and Changes in Accounting

For information regarding recent accounting pronouncements, see Notes to Consolidated Financial Statements included in Part I, Item 1.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Financial Market Risks

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 order to accomplish this objective, we sometimes enter 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

Edgar Filing: AECOM - Form 10-Q

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the U.S. We use foreign currency forward contracts from time to time to mitigate foreign currency risk. We limit exposure to foreign currency fluctuations in most of our contracts through provisions that require client payments in currencies corresponding to the currency in which costs are incurred. As a result of this natural hedge, we generally do not need to hedge foreign currency cash flows for contract work performed. The functional currency of our significant foreign operations is the respective local currency.

Interest Rates

Our Credit Agreement 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, 2016, we had \$1,996.1 million in outstanding borrowings under our term credit agreements and our revolving credit facility. Interest on amounts borrowed under these agreements is subject to adjustment based on certain levels of financial performance. The applicable margin that is added to the borrowing's base rate can range from 0.75% to 3.00%. For the three months ended December 31, 2016, our weighted average floating rate borrowings were \$2,454.7 million, or \$1,854.7 million excluding borrowings with effective fixed interest rates due to interest rate swap agreements. If short-term floating interest rates had increased by 1.00%, our interest expense for the three months ended December 31, 2016 would have increased by \$4.6 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.

Table of Contents

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, 2016 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 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. We are not always aware that we or our affiliates are under investigation or the status of such matters. Although the outcome of our legal proceedings cannot be predicted with certainty and no assurances can be provided, in the opinion of our management, based upon current information and discussions with counsel, with the exception of the matters in Note 14, Commitments and Contingencies, to the financial statements contained in this report to the extent stated therein, none of the investigations, claims and lawsuits in which we are involved is expected to have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business. See Note 14, Commitments and Contingencies, to the financial statements contained in this report for a discussion of certain matters to which we are a party. The information set forth in such note is incorporated by reference into this Item 1. From time to time, we establish reserves for litigation when we consider it

probable that a loss will occur.

Item 1A. Risk Factors

We operate 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 occurs, our business, financial condition or results of operations could be materially adversely affected.

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 weak and decline further, 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 that result in clients delaying, curtailing or canceling proposed and existing projects. For example, commodity price volatility has negatively impacted our oil and gas business and business regions whose economies are substantially dependent on commodities prices such as the Middle East and has also impacted North American oil and gas clients' investment decisions. Economic conditions in a number of countries and regions, including Canada, the United Kingdom, China and the Middle East, remain weak and may remain difficult for the foreseeable future. In 2017, the federal government proposed significant legislative and executive infrastructure initiatives that could have a significant positive impact to our infrastructure business. 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.

Table of Contents

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. In addition, when market trends improve, we may see an increase in business development investments. 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.

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

A substantial majority of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal 2016 and 2015, approximately 47% and 50%, 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. In addition, public-supported financing such as state and local municipal bonds may be only partially raised to support existing infrastructure projects. 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 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. Similarly, the impact of an economic downturn on state and local governments may make it more difficult for them to fund infrastructure projects. 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.

The Budget Control Act of 2011 could significantly reduce U.S. government spending for the services we provide.

Under the Budget Control Act of 2011, an automatic sequestration process, or across-the-board budget cuts (a large portion of which was defense-related), was triggered when the Joint Select Committee on Deficit Reduction, a committee of twelve members of Congress, failed to agree on a deficit reduction plan for the U.S. federal budget. The sequestration began on March 1, 2013. Although the Bipartisan Budget Act of 2013 provides some sequester relief until the end of 2017, absent additional legislative or other remedial action, the sequestration requires reduced U.S. federal government spending from 2017 through 2025. A significant reduction in federal government spending or a change in budgetary priorities could reduce demand for our services, cancel or delay federal projects, and result in the closure of federal facilities and significant personnel reductions, which could have a material adverse effect on our results of operations and financial condition.

If we are unable to win or renew government contracts during regulated procurement processes, our operations and financial results would be harmed.

Government contracts are awarded through a regulated procurement process. The federal government has awarded multi-year contracts with pre-established terms and conditions, such as indefinite delivery contracts, that generally require those contractors that have previously been awarded the indefinite delivery contract to engage in an additional competitive bidding process before a task order is issued. In addition, the federal government has also awarded federal contracts based on a low-price, technically acceptable criteria emphasizing price over qualitative

Edgar Filing: AECOM - Form 10-Q

factors, such as past performance. As a result of these competitive pricing pressures, our profit margins on future federal contracts may be reduced and may require us to make sustained efforts to reduce costs in order to realize revenues and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. In addition, we may not be awarded government contracts because of existing government policies designed to protect small businesses and under-represented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and reduce our profits and revenues.

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

Most government contracts may be modified, curtailed or terminated by the government either at its discretion or upon the default of the contractor. If the government terminates a contract at its discretion, then we typically are able to recover only costs incurred or committed, settlement expenses and profit on work completed prior to termination, which could prevent us from recognizing all of our potential revenue and profits from that contract. In addition, for certain assignments, the U.S. government may

attempt to insource the services to government employees rather than outsource to a contractor. 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.

Table of Contents

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. If such matters are not resolved in our favor, they 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 government contractor, we are subject to an increased risk of investigations, criminal prosecution, civil fraud actions, 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. For example, a qui tam lawsuit related to the Hanford Nuclear Reservation Waste Treatment Plant contract was unsealed against one of our affiliates in November 2016 which was settled for a significant monetary amount. These suits typically allege that we have made false statements or certifications in connection with claims for payment, or improperly retained overpayments, from the government. These suits may remain under seal (and hence, be unknown to us) for some time while the government decides whether to intervene on behalf of the qui tam plaintiff.

The United Kingdom's proposed withdrawal from the European Union could have an adverse effect on our business and financial results.

In June 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union, commonly referred to as Brexit. It is expected that the United Kingdom government will initiate a process to withdraw from the EU and begin negotiating the terms of its separation. Our United Kingdom business is a significant part of our European operations with over 8,000 employees and revenues representing approximately 5% of our total revenue for the fiscal year ended September 30, 2016. In addition, our United Kingdom affiliates have liabilities denominated in pounds sterling such as defined benefit pension plan assets and liabilities that could be impacted by Brexit. Brexit may cause our customers to closely monitor their costs and reduce demand for our services which could adversely affect our United Kingdom and overall business and financial results.

An impairment charge of goodwill could have a material adverse impact on our financial condition and results of operations.

Because we have grown in part through acquisitions, goodwill and intangible assets-net represent a substantial portion of our assets. Under GAAP, we are required to test goodwill carried in our Consolidated Balance Sheets for possible impairment on an annual basis based upon a fair value approach and whenever events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in a reporting unit's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, a significant sustained decline in our market capitalization and other factors.

In addition, if we experience a decrease in our stock price and market capitalization over a sustained period, we would have to record an impairment charge in the future. The amount of any impairment could be significant and could have a material adverse impact on our financial condition and results of operations for the period in which the charge is taken.

Our substantial leverage and significant debt service obligations could adversely affect our financial condition and our ability to fulfill our obligations and operate our business.

We had approximately \$4.2 billion of indebtedness (excluding intercompany indebtedness) outstanding as of December 31, 2016, of which \$2.1 billion was secured obligations (exclusive of \$51.4 million of outstanding undrawn letters of credit) and we have an additional \$862.1 million of availability under our Credit Agreement (after giving effect to outstanding letters of credit), all of which would be secured debt, if drawn. Our financial performance could be adversely affected by our substantial leverage. We may also incur significant additional indebtedness in the future, subject to certain conditions.

Table of Contents

This high level of indebtedness could have important negative consequences to us, including, but not limited to:

- we may have difficulty satisfying our obligations with respect to outstanding debt obligations;

- we may have difficulty obtaining financing in the future for working capital, acquisitions, capital expenditures or other purposes;

- we may need to use all, or a substantial portion, of our available excess cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities, including, but not limited to, working capital requirements, acquisitions, capital expenditures or other general corporate or business activities;

- our debt level increases our vulnerability to general economic downturns and adverse industry conditions;

- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;

- our substantial amount of debt and the amount we must pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt;

- we may have increased borrowing costs;

- our clients, surety providers or insurance carriers may react adversely to our significant debt level;

- we may have insufficient funds, and our debt level may also restrict us from raising the funds necessary, to retire certain of our debt instruments tendered to us upon maturity of our debt or the occurrence of a change of control, which would constitute an event of default under certain of our debt instruments; and

Edgar Filing: AECOM - Form 10-Q

- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or prospects.

Our high level of indebtedness requires that we use a substantial portion of our cash flow from operations to pay principal of, and interest on, our indebtedness, which will reduce the availability of cash to fund working capital requirements, future acquisitions, capital expenditures or other general corporate or business activities.

In addition, a substantial portion of our indebtedness bears interest at variable rates, including borrowings under our Credit Agreement. If market interest rates increase, debt service on our variable-rate debt will rise, which could adversely affect our cash flow, results of operations and financial position. Although we may employ hedging strategies such that a portion of the aggregate principal amount of our term loans carries a fixed rate of interest, any hedging arrangement put in place may not offer complete protection from this risk. Additionally, the remaining portion of borrowings under our Credit Agreement that is not hedged will be subject to changes in interest rates.

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 2016, revenue attributable to our services provided outside of the United States to non-U.S. clients was approximately 28% of our total revenue. There are risks inherent in doing business internationally, including:

- imposition of governmental controls and changes in laws, regulations or policies;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- changes in U.S. and other national government trade policies affecting the markets for our services;
- changes in regulatory practices, tariffs and taxes;
- potential non-compliance with a wide variety of laws and regulations, including anti-corruption, export control and anti-boycott laws and similar non-U.S. laws and regulations;

- changes in labor conditions;
- logistical and communication challenges; and
- currency exchange rate fluctuations, devaluations and other conversion restrictions.

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

Table of Contents

Political, economic and military conditions in the Middle East, Africa and other regions could negatively impact our business.

In recent years, there has been a substantial amount of hostilities, civil unrest and other political uncertainty in certain areas in the Middle East, North Africa and beyond. If civil unrest were to disrupt our business in any of these regions, and particularly if political activities were to result in prolonged hostilities, unrest or civil war, it could result in operating losses and asset write downs and our financial condition could be adversely affected.

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, including the requirements to maintain accurate information and internal controls which may fall within the purview of the FCPA, its books and records provisions or its anti-bribery provisions. 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 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. In addition, from time to time, government investigations of corruption in construction-related industries affect us and our peers. 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.

Many of our project sites are inherently dangerous workplaces. Failure to maintain safe work sites and equipment could result in environmental disasters, employee deaths or injuries, reduced profitability, the loss of projects or clients and possible exposure to litigation.

Our project sites often put our employees and others in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. On some project sites, we may be responsible for safety and, accordingly, we have an obligation to implement effective safety procedures. If we fail to implement these procedures or if the procedures we implement are ineffective, we may suffer the loss of or injury to our employees, as well as expose ourselves to possible litigation. As a result, our failure to maintain adequate safety standards and equipment could result in reduced profitability or the loss of projects or clients, and could have a material adverse impact on our business, financial condition, and results of operations.

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 the Middle East, Iraq, North Africa, and Southwest Asia, 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, contractors or assets.

Cyber security breaches of our systems and information technology could adversely impact our ability to operate.

We develop, install and maintain information technology systems for ourselves, as well as for customers. Client contracts for the performance of information technology services, as well as various privacy and securities laws, require us to manage and protect sensitive and confidential information, including federal and other government information, from disclosure. We also need to protect our own internal trade secrets and other business confidential information from disclosure. We face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorized access to our and our clients' proprietary or classified information. We rely on industry-accepted security measures and technology to securely maintain all confidential and proprietary information on our information systems. We have devoted and will continue to devote significant resources to the security of our computer systems, but they may still be vulnerable to these threats. A user who circumvents security measures could misappropriate confidential or proprietary information, including information regarding us, our personnel and/or our clients, or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Table of Contents

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

Fixed-price contracts require us to either perform all work under the contract for a specified lump-sum or to perform an estimated number of units of work at an agreed price per unit, with the total payment determined by the actual number of units performed. In addition, we may enter guaranteed maximum price contracts where we guarantee a price or delivery date. Fixed-price contracts expose us to a number of risks not inherent in cost-plus, time and material, and guaranteed maximum price 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. In addition, our exposure to construction cost overruns may increase over time as we increase our construction services. Losses under fixed-price or guaranteed contracts could be substantial and adversely impact our results of operations.

Our failure to meet contractual schedule or performance requirements that we have guaranteed could adversely affect our operating results.

In certain circumstances, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. If we or an entity for which we have provided a guarantee subsequently fails to complete the project as scheduled and the matter cannot be satisfactorily resolved with the client, we may be responsible for cost impacts to the client resulting from any delay or the cost to complete the project. Our costs generally increase from schedule delays and/or could exceed our projections for a particular project. In addition, project performance can be affected by a number of factors beyond our control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. Material performance problems for existing and future contracts could cause actual results of operations to differ from those anticipated by us and also could cause us to suffer damage to our reputation within our industry and client base.

We may not be able to maintain adequate surety and financial capacity necessary for us to successfully bid on and win contracts.

In line with industry practice, we are often required to provide surety bonds, standby letters of credit or corporate guarantees to our clients that indemnify the customer should our affiliate fail to perform its obligations under the terms of a contract. A surety may issue a performance or payment bond to guarantee to the client that our affiliate will perform under the terms of a contract. If our affiliate fails to perform under the terms of the contract, then the client may demand that the surety provide the contracted services under the performance or payment bond. In addition, we would typically have obligations to indemnify the surety for any loss incurred in connection with the bond. If a surety bond or a letter of credit is required for a particular project and we are unable to obtain an appropriate surety bond or letter of credit, we may not be able to pursue that project which in turn could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

We participate in certain joint ventures where we provide guarantees and may be adversely impacted by the failure of the joint venture or its participants to fulfill their obligations.

We have investments in and commitments to certain joint ventures with unrelated parties, including in connection with construction services, government services, and the investment activities of AECOM Capital. These joint ventures from time to time borrow money to help finance their activities and in certain circumstances, we are required to provide guarantees of certain obligations of our affiliated entities, including

guarantees for completion of projects, repayment of debt, environmental indemnity obligations and acts of willful misconduct. If these entities are not able to honor their obligations under the guarantees, we may be required to expend additional resources or suffer losses, which could be significant.

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

Approximately 14% of our fiscal 2016 revenue was derived from our operations through joint ventures or similar partnership arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners; and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Sales of our services provided to our unconsolidated joint ventures were approximately 3% of our fiscal 2016 revenue. We generally do not have control of these unconsolidated joint ventures. 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 and could also affect our reputation in the industries we serve.

Table of Contents

Systems and information technology interruption and unexpected data or vendor loss could adversely impact our ability to operate.

We rely heavily on computer, information and communications technology and related systems to properly operate. From time to time, we experience occasional system interruptions and delays. If we are unable to effectively upgrade our systems and network infrastructure and take other steps to protect our systems, the operation of our systems could be interrupted or delayed. Our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications failures, acts of war or terrorism 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.

We also rely in part on third-party software and information technology vendors to run our critical accounting, project management and financial information systems. We depend on our software and information technology vendors to provide long-term software and hardware support for our information systems. Our software and information technology vendors may decide to discontinue further development, integration or long-term software and hardware support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our accounting, project management and financial information to other systems, thus increasing our operational expense, as well as disrupting the management of our business operations.

Misconduct by our employees, partners 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, partners 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 procurement regulations, environmental regulations, regulations regarding the protection of sensitive government information, legislation regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, and anti-corruption, anti-competition, 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 government granted eligibility, cancellation of contracts and suspension or debarment from contracting with government agencies, any of which may adversely affect our business.

We may be required to contribute additional cash to meet our significant underfunded benefit obligations associated with pension benefit plans we manage or multiemployer pension plans in which we participate.

We have defined benefit pension plans for employees in the United States, United Kingdom, Canada, Australia, and Ireland. At December 31, 2016, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately \$660.8 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 that may require us 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.

A multiemployer pension plan is typically established under a collective bargaining agreement with a union to cover the union-represented workers of various unrelated companies. Our collective bargaining agreements with unions will require us to contribute to various multiemployer pension plans; however, we do not control or manage these plans. For the twelve months ended September 30, 2016, we contributed \$49.5 million to multiemployer pension plans. Under the Employee Retirement Income Security Act, an employer who contributes to a multiemployer pension plan, absent an applicable exemption, may also be liable, upon termination or withdrawal from the plan, for its proportionate share of the multiemployer pension plan's unfunded vested benefit. If we terminate or withdraw from a multiemployer plan, absent an applicable exemption (such as for some plans in the building and construction industry), we could be required to contribute a significant amount of cash to fund the multiemployer plan's unfunded vested benefit, which could materially and adversely affect our financial results; however, since we do not control the multiemployer plans, we are unable to estimate any potential contributions that could be required.

New legal requirements could adversely affect our operating results.

Our business and results of operations could be adversely affected by the passage of new climate change, defense, environmental, infrastructure and other laws, policies and regulations. Growing concerns about climate change and greenhouse gases, such as those adopted under the United Nations COP-21 Paris Agreement or the EPA Clean Power Plan, may result in the imposition of additional environmental regulations for our clients' fossil fuel projects. For example, legislation, international protocols, regulation or other restrictions on emissions regulations could increase the costs of projects for our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services. In addition, relaxation or repeal of laws and regulations, or changes in governmental policies regarding environmental, defense, infrastructure or other industries we serve could result in a decline in demand for our services, which could in turn negatively impact our revenues. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

Table of Contents

We may be subject to substantial liabilities under environmental laws and regulations.

Our services are subject to numerous environmental protection laws and regulations that are complex and stringent. Our business involves in part the planning, design, program management, construction and construction management, and operations and maintenance at various sites, including but not limited to, pollution control systems, nuclear facilities, hazardous waste and Superfund sites, contract mining sites, hydrocarbon production, distribution and transport sites, military bases and other infrastructure-related facilities. We also regularly perform work, including oil field and pipeline construction services in and around sensitive environmental areas, such as rivers, lakes and wetlands. In addition, we have contracts with U.S. federal government entities to destroy hazardous materials, including chemical agents and weapons stockpiles, as well as to decontaminate and decommission nuclear facilities. These activities may require us to manage, handle, remove, treat, transport and dispose of toxic or hazardous substances. We also own and operate several properties in the U.S. and Canada that have been used for the storage and maintenance of equipment and upon which hydrocarbons or other wastes may have been disposed or released. Past business practices at companies that we have acquired may also expose us to future unknown environmental liabilities.

Significant fines, penalties and other sanctions may be imposed for non-compliance with environmental laws and regulations, and some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, rendering a person liable for environmental damage, without regard to negligence or fault on the part of such person. These laws and regulations may expose us to liability arising out of the conduct of operations or conditions caused by others, or for our acts that were in compliance with all applicable laws at the time these acts were performed. For example, there are a number of governmental laws that strictly regulate the handling, removal, treatment, transportation and disposal of toxic and hazardous substances, such as Comprehensive Environmental Response Compensation and Liability Act of 1980, and comparable state laws, that impose strict, joint and several liabilities for the entire cost of cleanup, without regard to whether a company knew of or caused the release of hazardous substances. In addition, some environmental regulations can impose liability for the entire cleanup upon owners, operators, generators, transporters and other persons arranging for the treatment or disposal of such hazardous substances related to contaminated facilities or project sites. Other federal environmental, health and safety laws affecting us include, but are not limited to, the Resource Conservation and Recovery Act, the National Environmental Policy Act, the Clean Air Act, the Clean Air Mercury Rule, the Occupational Safety and Health Act, the Toxic Substances Control Act and the Superfund Amendments and Reauthorization Act and the Energy Reorganization Act of 1974, as well as other comparable national and state laws. Liabilities related to environmental contamination or human exposure to hazardous substances, or a failure to comply with applicable regulations could result in substantial costs to us, including cleanup costs, fines and civil or criminal sanctions, third-party claims for property damage or personal injury or cessation of remediation activities. Our continuing work in the areas governed by these laws and regulations exposes us to the risk of substantial liability.

Demand for our oil and gas services fluctuates.

Demand for our oil and natural gas services fluctuates, and we depend on our customers' willingness to make future expenditures to explore for, develop and produce oil and natural gas in the U.S. and Canada. For example, the past volatility in the price of oil and natural gas has significantly decreased existing and future projects. Our customers' willingness to undertake future projects depends largely upon prevailing industry conditions that are influenced by numerous factors over which we have no control, such as the anticipated future prices for natural gas and crude oil. The multi-year decline in oil and natural gas prices has decreased spending and drilling activity, which has caused declines in demand for our services and in the prices we are able to charge for our services.

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

Edgar Filing: AECOM - Form 10-Q

We have grown in part as a result of our acquisitions over the last several years, and we expect continued growth in the form of additional acquisitions and expansion into new markets. If we are unable to pursue suitable acquisition opportunities, as a result of global economic uncertainty or other factors, our growth may be inhibited. We cannot assure 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:

Table of Contents

- 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;
- liabilities related to pre-acquisition activities of an acquired business and the burdens on our staff and resources to comply with, conduct or resolve investigations into such 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. In addition, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings, or sales or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all. Moreover, we cannot assure that we will continue to successfully expand or that growth or expansion will result in profitability.

Although we expect to realize certain benefits as a result of our acquisitions, there is the possibility that we may be unable to successfully integrate our businesses in order to realize the anticipated benefits of the acquisitions or do so within the intended timeframe.

As a result of recent acquisitions, we have been, and will continue to be, required to devote significant management attention and resources to integrating the business practices and operations of the acquired companies with our business. Difficulties we may encounter as part of the integration process include the following:

- the consequences of a change in tax treatment, including the costs of integration and compliance and the possibility that the full benefits anticipated from the acquisition will not be realized;

- any delay in the integration of management teams, strategies, operations, products and services;
- diversion of the attention of each company's management as a result of the acquisition;
- differences in business backgrounds, corporate cultures and management philosophies that may delay successful integration;
- the ability to retain key employees;
- the ability to create and enforce uniform standards, controls, procedures, policies and information systems;
- the challenge of integrating complex systems, technology, networks and other assets into those of ours in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition, including costs to integrate beyond current estimates;
- the ability to deduct or claim certain tax attributes or benefits such as operating losses, business or foreign tax credits; and
- the disruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies.

Any of these factors could adversely affect each company's ability to maintain relationships with customers, suppliers, employees and other constituencies or our ability to achieve the anticipated benefits of the acquisition or could reduce each company's earnings or otherwise adversely affect our business and financial results.

The agreements governing our debt contain a number of restrictive covenants which will limit our ability to finance future operations, acquisitions or capital needs or engage in other business activities that may be in our interest.

Edgar Filing: AECOM - Form 10-Q

The Credit Agreement and the indentures governing our debt contain a number of significant covenants that impose operating and other restrictions on us and our subsidiaries. Such restrictions affect or will affect, and in many respects limit or prohibit, among other things, our ability and the ability of certain of our subsidiaries to:

Table of Contents

- incur additional indebtedness;
- create liens;
- pay dividends and make other distributions in respect of our equity securities;
- redeem our equity securities;
- distribute excess cash flow from foreign to domestic subsidiaries;
- make certain investments or certain other restricted payments;
- sell certain kinds of assets;
- enter into certain types of transactions with affiliates; and
- effect mergers or consolidations.

In addition, our Credit Agreement also requires us to comply with a consolidated interest coverage ratio and consolidated leverage ratio. Our ability to comply with these ratios may be affected by events beyond our control.

These restrictions could limit our ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans, and could adversely affect our ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under all or certain of our debt instruments. If an event of default occurs, our creditors could elect to:

- declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;
- require us to apply all of our available cash to repay the borrowings; or
- prevent us from making debt service payments on certain of our borrowings.

If we were unable to repay or otherwise refinance these borrowings when due, the applicable creditors could sell the collateral securing certain of our debt instruments, which constitutes substantially all of our domestic and foreign, wholly owned subsidiaries' assets.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our Credit Agreement are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. A 1.00% increase in such interest rates would increase total interest expense under our Credit Agreement for the three months ended December 31, 2016 by \$4.6 million, including the effect of our interest rate swaps. We may, from time to time, enter into additional interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk and could be subject to credit risk themselves.

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 uncommitted bond facilities and new indebtedness, replace our existing revolving and term credit agreements 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.

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 in the timeframe demanded by our clients. 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. In addition, we may occasionally enter into contracts before we have hired or retained appropriate staffing for that project. Also, some of our personnel hold government granted eligibility that may be required to obtain certain government projects. If we were to lose some or all of these personnel, they would be difficult to replace. In addition, we rely heavily upon the expertise and leadership of our senior management. If we are unable to retain executives and other key personnel, the roles and responsibilities of those employees will need to be filled, which may require that we devote time and resources to identify, hire and integrate new employees. 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 government granted eligibility or other qualifications we and they need to perform services for our customers.

A number of government programs require contractors to have certain kinds of government granted eligibility, such as security clearance credentials. Depending on the project, eligibility can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain the necessary eligibility, including local ownership requirements, 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 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. In addition, the technical and professional aspects of some of our services generally do not require large upfront capital expenditures and provide limited barriers against new competitors.

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 accounted for over 10% of our revenue for fiscal 2016, we face collection risk as a normal part of our business where we perform services and subsequently bill our clients for such services, or when we make equity investments in majority or minority controlled large-scale client projects and other long-term capital projects before the project completes operational status or completes its project financing. 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 to clients on projects under indemnification agreements. We cannot predict the magnitude of potential liabilities from the operation of our business. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project sites for our clients. We may be deemed to be responsible for these judgments and recommendations if such judgments and recommendations are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations.

Table of Contents

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 effect on our business.

Unavailability or cancellation of third-party insurance coverage would increase our overall risk exposure as well as disrupt the management of our business operations.

We maintain insurance coverage from third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. If any of our third-party insurers fail, suddenly cancel our coverage or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase and the management of our business operations would be disrupted. In addition, there can be no assurance that any of our existing insurance coverage will be renewable upon the expiration of the coverage period or that future coverage will be affordable at the required limits.

If we do not have adequate indemnification for our services related to nuclear materials, it could adversely affect our business and financial condition.

We provide services to the Department of Energy relating to our nuclear weapons facilities and the nuclear energy industry in the ongoing maintenance and modification, as well as the decontamination and decommissioning, of our nuclear energy plants. Indemnification provisions under the Price-Anderson Act available to nuclear energy plant operators and Department of Energy contractors do not apply to all liabilities that we might incur while performing services as a radioactive materials cleanup contractor for the Department of Energy and the nuclear energy industry. If the Price-Anderson Act's indemnification protection does not apply to our services or if our exposure occurs outside the U.S., our business and financial condition could be adversely affected either by our client's refusal to retain us, by our inability to obtain commercially adequate insurance and indemnification, or by potentially significant monetary damages we may incur.

We also provide services to the United Kingdom's Nuclear Decommissioning Authority (NDA) relating to clean-up and decommissioning of the United Kingdom's public sector nuclear sites. Indemnification provisions under the Nuclear Installations Act 1965 available to nuclear site licensees, the Atomic Energy Authority, and the Crown, and contractual indemnification from the NDA do not apply to all liabilities that we might incur while performing services as a clean-up and decommissioning contractor for the NDA. If the Nuclear Installations Act 1965 and contractual indemnification protection does not apply to our services or if our exposure occurs outside the United Kingdom, our business and financial condition could be adversely affected either by our client's refusal to retain us, by our inability to obtain commercially adequate insurance and indemnification, or by potentially significant monetary damages we may incur.

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, 2016, our contracted backlog was approximately \$25.0 billion, our awarded backlog was approximately \$15.3 billion and our unconsolidated joint venture backlog was approximately \$3.5 billion for a total backlog of \$43.8 billion. Our contracted backlog includes revenue we expect to record in the future from signed contracts and, in the case of a public sector client, where the project has been funded. Our awarded backlog includes revenue we expect to record in the future where we have been awarded the work, but the contractual agreement has

Edgar Filing: AECOM - Form 10-Q

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 canceled. 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. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. If these claims are not approved, our revenue may be reduced in future periods.

Table of Contents

In conducting our business, we depend on other contractors, subcontractors and equipment and material providers. 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, subcontractors and equipment and material providers 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. Also, to the extent that we cannot acquire equipment and materials at reasonable costs, or if the amount we are required to pay exceeds our estimates, our ability to complete a project in a timely fashion or at a profit may be impaired. 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; we could be held responsible for such failures and/or we may be required to purchase the supplies or services from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the supplies or services are needed.

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.

If clients use our reports or other work product without appropriate disclaimers or in a misleading or incomplete manner, or if our reports or other work product are not in compliance with professional standards and other regulations, our business could be adversely affected.

The reports and other work product we produce for clients sometimes include projections, forecasts and other forward-looking statements. Such information by its nature is subject to numerous risks and uncertainties, any of which could cause the information produced by us to ultimately prove inaccurate. While we include appropriate disclaimers in the reports that we prepare for our clients, once we produce such written work product, we do not always have the ability to control the manner in which our clients use such information. As a result, if our clients reproduce such information to solicit funds from investors for projects without appropriate disclaimers and the information proves to be incorrect, or if our clients reproduce such information for potential investors in a misleading or incomplete manner, our clients or such investors may threaten to or file suit against us for, among other things, securities law violations. For example, in August 2016, AECOM Australia and other parties entered into a settlement related to, among other things, alleged deficiencies in AECOM Australia's traffic forecast. If we were found to be liable for any claims related to our client work product, our business could be adversely affected.

In addition, our reports and other work product may need to comply with professional standards, licensing requirements, securities regulations and other laws and rules governing the performance of professional services in the jurisdiction where the services are performed. We could be liable to third parties who use or rely upon our reports and other work product even if we are not contractually bound to those third parties. These events could in turn result in monetary damages and penalties.

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

Edgar Filing: AECOM - Form 10-Q

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.

Negotiations with labor unions and possible work actions could divert management attention and disrupt operations. In addition, new collective bargaining agreements or amendments to agreements could increase our labor costs and operating expenses.

We regularly negotiate with labor unions and enter into collective bargaining agreements. The outcome of any future negotiations relating to union representation or collective bargaining agreements may not be favorable to us. We may reach agreements in collective bargaining that increase our operating expenses and lower our net income as a result of higher wages or benefit expenses. In addition, negotiations with unions could divert management attention and disrupt operations, which may adversely affect our results of operations. If we are unable to negotiate acceptable collective bargaining agreements, we may have to address the threat of union-initiated work actions, including strikes. Depending on the nature of the threat or the type and duration of any work action, these actions could disrupt our operations and adversely affect our operating results.

Table of Contents

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

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:

- 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.

Changes in tax laws could increase our worldwide tax rate and materially affect our results of operations.

Many international legislative and regulatory bodies have proposed legislation and begun investigations of the tax practices of multinational companies and, in the European Union (EU), the tax policies of certain EU member states. One of these efforts has been led by the Organisation for Economic Co-operation Development, an international association of 34 countries including the United States, which has finalized recommendations to revise corporate tax, transfer pricing, and tax treaty provisions in member countries. Since 2013, the European Commission (EC) has been investigating tax rulings granted by tax authorities in a number of EU member states with respect to specific multinational corporations to determine whether such rulings comply with EU rules on state aid, as well as more recent investigations of the tax regimes of certain EU member states. If the EC determines that a tax ruling or tax regime violates the state aid restrictions, the tax authorities of the affected EU member state may be required to collect back taxes for the period of time covered by the ruling. In late 2015 and 2016, the EC declared that tax rulings by tax authorities in Luxembourg, the Netherlands, Belgium and Ireland did not comply with the EU state aid restrictions. Due to the

large scale of our U.S. and international business activities, many of these proposed changes to the taxation of our activities, if enacted, could increase our worldwide effective tax rate and harm results of operations. In addition, the current U.S. administration and key members of Congress have made public statements indicating that U.S. tax reform is a priority. Certain changes including limitations on the ability to defer U.S. taxation on earnings outside of the U.S. could increase our worldwide effective tax rate and harm results of operations.

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

Stock Repurchase Program

The Company's Board of Directors has authorized the repurchase of up to \$1.0 billion in Company stock. Share repurchases can be made through open market purchases or other methods, including pursuant to a Rule 10b5-1 plan. From the inception of the stock repurchase program, the Company has purchased a total of 27.4 million shares at an average price of \$24.10 per share, for a total cost of \$660.1 million through September 30, 2014. No stock purchases were made for the three months ended December 31, 2016.

Item 4. Mine Safety Disclosure

The Company does not act as the owner of any mines, but we may act as a mining operator as defined under the Federal Mine Safety and Health Act of 1977 where we may be a lessee of a mine, a person who operates, controls or supervises such mine, or an independent contractor performing services or construction of such mine. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.

Table of Contents**Item 6. Exhibits**

The following documents are filed as Exhibits to the Report:

Exhibit Numbers	Description
3.1	Amended and Restated Certificate of Incorporation of AECOM Technology Corporation (incorporated by reference to Exhibit 3.1 to the Company's annual report on Form 10-K filed with the SEC on November 18, 2011)
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of AECOM Technology Corporation (incorporated by reference to Exhibit 3.2 to the Company's registration statement on Form S-4 filed with the SEC on August 1, 2014)
3.3	Certificate of Correction of Amended and Restated Certificate of Incorporation of AECOM Technology Corporation (incorporated by reference to Exhibit 3.3 to the Company's Form 10-K filed with the SEC on November 17, 2014)
3.4	Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed with the SEC on January 9, 2015)
3.5	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Company's current report on Form 8-K filed with the SEC on January 9, 2015)
10.1#	AECOM Technology Corporation Change in Control Severance Policy for Key Executives – Schedule A.
10.2#	Standard Terms and Conditions for Performance Earnings Program and Performance Criteria (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 15, 2016)
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
95	Mine Safety Disclosure
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Management contract or compensatory plan or arrangement.

*Document has been furnished and not filed.

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

Date: February 8, 2017

By:

/S/ W. TROY RUDD

W. Troy Rudd

Executive Vice President and Chief Financial Officer