

AECOM TECHNOLOGY CORP
Form 10-Q
August 08, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 0-52423

AECOM TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

555 South Flower Street, Suite 3700

Los Angeles, California 90071

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

As of July 31, 2012, 113,076,900 shares of the registrant's common stock were outstanding.

Table of Contents

AECOM TECHNOLOGY CORPORATION

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	1
Item 1.	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of June 30, 2012 (unaudited) and September 30, 2011</u>	1
	<u>Consolidated Statements of Income for the Three and Nine Months Ended June 30, 2012 (unaudited) and June 30, 2011 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2012 (unaudited) and June 30, 2011 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2012 (unaudited) and June 30, 2011 (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>	19
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4.	<u>Controls and Procedures</u>	33
<u>PART II.</u>	<u>OTHER INFORMATION</u>	34
Item 1.	<u>Legal Proceedings</u>	34
Item 1A.	<u>Risk Factors</u>	34
Item 2.	<u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	42
Item 6.	<u>Exhibits</u>	43
<u>SIGNATURES</u>		44

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

	June 30, 2012 (Unaudited)	September 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 286,263	\$ 349,868
Cash in consolidated joint ventures	112,131	107,072
Total cash and cash equivalents	398,394	456,940
Accounts receivable net	2,483,269	2,380,181
Prepaid expenses and other current assets	145,157	100,575
Income taxes receivable	12,975	45,239
Deferred tax assets net	7,131	7,131
TOTAL CURRENT ASSETS	3,046,926	2,990,066
PROPERTY AND EQUIPMENT NET	326,045	323,826
DEFERRED TAX ASSETS NET	74,507	82,966
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	84,237	71,124
GOODWILL	2,109,741	2,086,330
INTANGIBLE ASSETS NET	101,933	119,140
OTHER NON-CURRENT ASSETS	120,251	115,876
TOTAL ASSETS	\$ 5,863,640	\$ 5,789,328
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$ 2,913	\$ 6,570
Accounts payable	738,803	679,111
Accrued expenses and other current liabilities	783,130	792,690
Billings in excess of costs on uncompleted contracts	363,573	324,899
Current portion of long-term debt	116,732	11,176
TOTAL CURRENT LIABILITIES	2,005,151	1,814,446
OTHER LONG-TERM LIABILITIES	396,057	435,022
LONG-TERM DEBT	950,622	1,144,723
TOTAL LIABILITIES	3,351,830	3,394,191
COMMITMENTS AND CONTINGENCIES (Note 14)		
AECOM STOCKHOLDERS EQUITY:		
Common stock authorized, 300,000,000 shares of \$0.01 par value as of June 30, 2012 and September 30, 2011; issued and outstanding, 109,928,128 and 113,248,337 as of June 30, 2012 and September 30, 2011, respectively	1,099	1,132
	—	

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Preferred stock, Class E authorized, 20 shares; issued and outstanding, 3 shares as of June 30, 2012 and September 30, 2011; no par value, \$1.00 liquidation preference value				
Additional paid-in capital		1,731,503		1,699,207
Accumulated other comprehensive loss		(170,163)		(187,574)
Retained earnings		893,311		826,946
TOTAL AECOM STOCKHOLDERS EQUITY		2,455,750		2,339,711
Noncontrolling interests		56,060		55,426
TOTAL STOCKHOLDERS EQUITY		2,511,810		2,395,137
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	5,863,640	\$	5,789,328

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue	\$ 2,095,138	\$ 2,046,725	\$ 6,135,269	\$ 5,919,329
Cost of revenue	1,983,900	1,925,486	5,857,568	5,593,020
Gross profit	111,238	121,239	277,701	326,309
Equity in earnings of joint ventures	12,281	12,248	38,141	31,675
General and administrative expenses	(20,682)	(23,560)	(63,150)	(70,430)
Income from operations	102,837	109,927	252,692	287,554
Other income (expense)	1,043	(1,585)	7,433	2,159
Interest expense, net	(12,702)	(10,452)	(34,520)	(30,338)
Income before income tax expense	91,178	97,890	225,605	259,375
Income tax expense	21,323	23,959	57,670	63,701
Net income	69,855	73,931	167,935	195,674
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(442)	(97)	(1,597)	(7,257)
Net income attributable to AECOM	\$ 69,413	\$ 73,834	\$ 166,338	\$ 188,417
Net income allocation:				
Preferred stock dividend	\$	\$	\$	\$ 2
Net income available for common stockholders	69,413	73,834	166,338	188,415
Net income attributable to AECOM	\$ 69,413	\$ 73,834	\$ 166,338	\$ 188,417
Net income attributable to AECOM per share:				
Basic	\$ 0.63	\$ 0.63	\$ 1.48	\$ 1.60
Diluted	\$ 0.63	\$ 0.62	\$ 1.47	\$ 1.59
Weighted average shares outstanding:				
Basic	110,221	117,932	112,513	117,739
Diluted	110,819	118,907	113,233	118,767

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM Technology Corporation
Consolidated Statements of Comprehensive Income

(unaudited in thousands)

	Three Months Ended		Nine Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Net income	\$ 69,855	\$ 73,931	\$ 167,935	\$ 195,674
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(29,626)	8,518	19,335	86,197
Swap valuation	(1,354)		(2,528)	
Pension adjustments	2,188	695	604	8,790
Comprehensive income, net of tax	41,063	83,144	185,346	290,661
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax	(442)	(97)	(1,597)	(7,257)
Comprehensive income attributable to AECOM, net of tax	\$ 40,621	\$ 83,047	\$ 183,749	\$ 283,404

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM Technology Corporation
Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Nine Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 167,935	\$ 195,674
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	76,893	85,245
Equity in earnings of unconsolidated joint ventures	(38,141)	(31,675)
Distribution of earnings from unconsolidated joint ventures	21,914	29,122
Non-cash stock compensation	19,690	21,211
Excess tax benefit from share-based payment	(1,133)	(61,192)
Foreign currency translation	570	37,215
Other	(2,854)	2,278
Changes in operating assets and liabilities, net of effects of acquisitions:		
Settlement of deferred compensation plan liability	—	(89,688)
Accounts receivable	(107,997)	(188,253)
Prepaid expenses and other assets	30,707	(14,642)
Accounts payable	58,164	(6,495)
Accrued expenses and other current liabilities	(14,151)	(51,545)
Billings in excess of costs on uncompleted contracts	37,111	(14,834)
Other long-term liabilities	(41,745)	(53,960)
Income taxes payable	—	11,415
Net cash provided by (used in) operating activities	206,963	(130,124)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for business acquisitions, net of cash acquired	(12,571)	(365,884)
Proceeds from disposal of business	567	2,434
Net investment in unconsolidated joint ventures	(2,453)	(23,474)
Purchases of investments	(28,571)	(14,656)
Proceeds from sale of investments in rabbi trust	1,958	67,219
Payments for capital expenditures	(47,805)	(47,283)
Net cash used in investing activities	(88,875)	(381,644)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	1,077,136	1,478,976
Repayments of borrowings under credit agreements	(1,170,246)	(1,224,062)
Proceeds from loans on deferred compensation plan investments	—	59,324
Repayment of loans on deferred compensation plan investments	—	(59,324)
Proceeds from issuance of common stock	11,436	12,748
Proceeds from exercise of stock options	3,902	5,893
Payments to repurchase common stock	(107,160)	(66,678)
Excess tax benefit from share-based payment	1,133	61,192
Net distributions to noncontrolling interests	(870)	(1,045)
Net cash (used in) provided by financing activities	(184,669)	267,024
EFFECT OF EXCHANGE RATE CHANGES ON CASH	8,035	13,354
NET DECREASE IN CASH AND CASH EQUIVALENTS	(58,546)	(231,390)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	456,940	612,857
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 398,394	\$ 381,467

NON-CASH INVESTING AND FINANCING ACTIVITY

Common stock issued in acquisitions	\$	857	\$	68,454
-------------------------------------	----	-----	----	--------

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM Technology Corporation

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements of AECOM Technology Corporation (the Company) are unaudited and, in the opinion of management, include all adjustments, 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, 2011. The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The results of operations for the nine months ended June 30, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2012.

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

2. New Accounting Pronouncements and Changes in Accounting

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to fair value measurements. The Company adopted the guidance for the quarter ended March 31, 2010, except for the portion of the guidance that requires the disclosure of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The Level 3 fair value measurement guidance was adopted by the Company in its fiscal year beginning October 1, 2011. Since the Company carries no Level 3 assets or liabilities, the adoption of the separate disclosures related to Level 3 measurements did not have a material impact on its consolidated financial statements. Additionally, the FASB issued a new accounting standard on fair value measurements that changes certain fair value measurement principles, clarifies the requirement for measuring fair value and expands disclosure requirements, particularly for Level 3 fair value measurements. This guidance was effective for the Company's second quarter ending March 31, 2012 and did not have a material impact on its consolidated financial statements.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new standard will require companies to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of other comprehensive income in the statement of stockholders' equity. This guidance is effective for the Company's fiscal year beginning October 1, 2012 and, although it will change the financial statement presentation, it is not expected to have a material impact on its financial condition or results of operations.

In September 2011, the FASB issued guidance intended to simplify goodwill impairment testing. Entities are allowed to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect this guidance will have a material impact on its consolidated financial statements.

3. Stock Repurchase Program

In August 2011, the Company's Board of Directors authorized a stock repurchase program (the Repurchase Program), pursuant to which the Company may purchase up to \$200 million of its common stock. Share repurchases under this program may be effected through open market purchases, unsolicited or solicited privately negotiated transactions or other methods, including pursuant to a Rule 10b5-1 plan.

Table of Contents

Accelerated Share Repurchase

In connection with the Repurchase Program, the Company entered into an accelerated share repurchase (ASR) agreement with Bank of America, N.A. (Bank of America) on August 16, 2011. Under the agreement for the ASR, the Company agreed to repurchase \$100 million of its common stock from Bank of America. During the quarter ended September 30, 2011, Bank of America delivered 4.3 million shares to the Company, at which point the Company's shares outstanding were reduced and accounted for as a reduction to retained earnings. The number of shares delivered was the minimum amount of shares Bank of America is contractually obligated to provide under the ASR agreement.

The number of shares that ultimately were repurchased by the Company under the ASR agreement was based upon the volume-weighted average share price of the Company's common stock during the term of the ASR agreement, less an agreed discount, subject to collar provisions which established a maximum and minimum price and other customary conditions under the ASR agreement. The ASR agreement was settled in full on March 7, 2012 and the total number of shares repurchased was 4.8 million at an average price of \$20.97.

Rule 10b5-1 Repurchase Plan and Open Market Purchases

In connection with the Repurchase Program, the Company entered into two Rule 10b5-1 repurchase plans. The timing, nature and amount of purchases depend on a variety of factors, including market conditions and the volume limit defined by Rule 10b-18.

As of June 30, 2012, the Company had repurchased approximately 4.4 million shares under both the Rule 10b5-1 plan and open market purchases, at an average price of \$22.59, for a total cost of approximately \$100.0 million. As of June 30, 2012, the Company has completed the Repurchase Program. Repurchased shares are retired, but remain authorized for registration and issuance in the future.

4. Business Acquisitions, Goodwill and Intangible Assets

The Company completed one business acquisition, Capital Engineering Corporation, an environmental engineering firm in Taiwan, during the nine months ended June 30, 2012. This business acquisition did not meet the quantitative thresholds to require pro forma disclosures of operating results based on the Company's consolidated assets and income.

At the time of acquisition, the Company preliminarily estimates the amount of the identifiable intangible assets acquired based upon historical valuations of similar acquisitions and the facts and circumstances available at the time. The Company determines the final value of the identifiable intangible assets as soon as information is available, but not more than 12 months from the date of acquisition. The Company is in the process of finalizing its valuation of intangible assets, deferred taxes and fair values related to projects and leases for certain recent acquisitions. Post-acquisition adjustments primarily relate to project related liabilities.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

The changes in the carrying value of goodwill by reporting segment for the nine months ended June 30, 2012 and 2011 were as follows:

	September 30, 2011	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Acquired	June 30, 2012
Reporting Unit					
Professional Technical Services	\$ 1,733.9	\$ (0.3)	\$ 5.5	\$ 10.7	\$ 1,749.8
Management Support Services	352.4	7.5			359.9
Total	\$ 2,086.3	\$ 7.2	\$ 5.5	\$ 10.7	\$ 2,109.7

	September 30, 2010	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Acquired	June 30, 2011
Reporting Unit					
Professional Technical Services	\$ 1,355.0	\$ (1.3)	\$ 26.6	\$ 398.4	\$ 1,778.7
Management Support Services	335.4	6.4			341.8
Total	\$ 1,690.4	\$ 5.1	\$ 26.6	\$ 398.4	\$ 2,120.5

Table of Contents

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of June 30, 2012 and September 30, 2011, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	Gross Amount	June 30, 2012 Accumulated Amortization	Intangible Assets, Net (in millions)	Gross Amount	September 30, 2011 Accumulated Amortization	Intangible Assets, Net	Amortization Period (years)
Backlog	\$ 92.1	\$ (83.6)	\$ 8.5	\$ 91.5	\$ (79.8)	\$ 11.7	1.5
Customer relationships	142.8	(50.5)	92.3	143.2	(39.3)	103.9	10
Trademark / tradename	7.7	(6.6)	1.1	7.4	(3.9)	3.5	2
Total	\$ 242.6	\$ (140.7)	\$ 101.9	\$ 242.1	\$ (123.0)	\$ 119.1	

Amortization expense of acquired intangible assets included within cost of revenue was \$17.7 million and \$25.2 million for the nine months ended June 30, 2012 and 2011, respectively. The following table presents estimated amortization expense of existing acquired intangible assets for the remainder of fiscal 2012 and for the succeeding years:

Fiscal Year	(in millions)
2012 (three months remaining)	\$ 5.8
2013	18.2
2014	16.8
2015	15.4
2016	12.7
Thereafter	33.0
Total	\$ 101.9

In addition to the above, amortization expense of acquired intangible assets included within equity in earnings of joint ventures was \$0.8 million and \$2.8 million for the nine months ended June 30, 2012 and 2011, respectively.

5. Accounts Receivable - Net

Net accounts receivable consisted of the following as of June 30, 2012 and September 30, 2011:

	June 30, 2012	September 30, 2011
	(in millions)	
Billed	\$ 1,289.4	\$ 1,256.3
Unbilled	1,166.8	1,133.6
Contract retentions	145.1	110.5
Total accounts receivable - gross	2,601.3	2,500.4
Allowance for doubtful accounts	(118.0)	(120.2)
Total accounts receivable - net	\$ 2,483.3	\$ 2,380.2

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of June 30, 2012 and September 30, 2011 are expected to be billed and collected within twelve months. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding for several months or years.

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

Other than the U.S. government, no single client accounted for more than 10% of the Company's accounts receivable as of June 30, 2012 or September 30, 2011.

The Company sold \$32.1 million of trade receivables to a financial institution during the three months ended June 30, 2012. The Company does not retain financial or legal interest in these receivables, and they are excluded from the accompanying consolidated balance sheet.

Table of Contents

6. Joint Ventures and Variable Interest Entities

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

Some of the Company's joint ventures have no employees and minimal operating expenses. For these joint ventures, the Company's employees perform work for the joint venture, which is then billed to a third-party customer by the joint venture. These joint ventures function as pass through entities to bill the third-party customer. For consolidated entities, 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.

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 issued by the FASB 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 which provide a party the power to direct the activities that most significantly impact the joint ventures economic performance, including powers granted to the joint venture's program manager, powers contained in the joint venture governing board and, to a certain extent, a company's economic interest in the joint venture. The Company 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 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.

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.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

The Company has not provided financial or other support during the periods presented to any of its VIEs that it was not previously contractually required to provide. Contractually required support provided to the Company's joint ventures is further discussed in Note 14.

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

	June 30, 2012 (Unaudited)		September 30, 2011
	(in millions)		
Current assets	\$ 241.8		\$ 262.6
Non-current assets			0.1
Total assets	\$ 241.8		\$ 262.7
Current liabilities	\$ 47.5		\$ 69.4
Non-current liabilities			
Total liabilities	47.5		69.4
Total AECOM equity	138.2		137.9
Noncontrolling interests	56.1		55.4
Total owners' equity	194.3		193.3
Total liabilities and owners' equity	\$ 241.8		\$ 262.7

Table of Contents

Total revenue of the consolidated joint ventures was \$346.8 million and \$461.4 million for the nine months ended June 30, 2012 and 2011, 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.

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

	June 30, 2012 (Unaudited)	September 30, 2011 (in millions)	
Current assets	\$ 544.6	\$	510.7
Non-current assets	16.4		22.6
Total assets	\$ 561.0	\$	533.3
Current liabilities	\$ 365.2	\$	357.8
Non-current liabilities	14.6		9.6
Total liabilities	379.8		367.4
Joint ventures' equity	181.2		165.9
Total liabilities and joint ventures' equity	\$ 561.0	\$	533.3
AECOM's investment in joint ventures	\$ 84.2	\$	71.1

Total revenue of the unconsolidated joint ventures was \$1,478.6 million and \$1,351.3 million for the nine months ended June 30, 2012 and 2011, respectively.

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

	Nine Months Ended	
	June 30, 2012	June 30, 2011
	(in millions)	
Pass through joint ventures	\$ 4.1	\$ 3.1
Other joint ventures	34.0	28.6
Total	\$ 38.1	\$ 31.7

7. Pension Benefit Obligations

The following table details the components of net periodic benefit cost for the Company's pension plans for the three and nine months ended June 30, 2012 and 2011:

Three Months Ended

Nine Months Ended

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

	June 30, 2012		June 30, 2011		June 30, 2012		June 30, 2011									
	U.S.	Int 1	U.S.	Int 1	U.S.	Int 1	U.S.	Int 1								
(in millions)																
Components of net periodic benefit cost:																
Service costs	\$	\$	0.2	\$	\$	0.9	\$	\$	0.8	\$	\$	3.1				
Interest cost on projected benefit obligation		1.9	6.4		2.0	6.9		5.8	19.2		6.2	20.2				
Expected return on plan assets		(2.1)	(6.3)		(2.0)	(7.2)		(6.3)	(19.0)		(6.1)	(20.7)				
Amortization of prior service costs									(0.1)			(0.2)				
Amortization of net loss		0.8	0.6		0.7	0.5		2.3	1.7		1.9	2.1				
Settlement or curtailment (gain) / loss recognized									0.5			(4.2)				
Net periodic benefit cost	\$	0.6	\$	0.9	\$	0.7	\$	1.1	\$	1.8	\$	3.1	\$	2.0	\$	0.3

The total amounts of employer contributions paid for the nine months ended June 30, 2012 were \$11.6 million for U.S. plans and \$12.9 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2012 are \$1.7 million for U.S. plans and \$3.7 million for non-U.S. plans. Included in other long-term liabilities are net pension liabilities of \$143.6 million and \$166.5 million as of June 30, 2012 and September 30, 2011, respectively.

Table of Contents**8. Debt**

Debt consisted of the following:

	June 30, 2012	September 30, 2011
	(in millions)	
Unsecured term credit agreements	\$ 750.0	\$ 750.0
Unsecured senior notes	256.0	253.6
Unsecured revolving credit facility	27.5	101.4
Notes secured by real properties	24.4	25.2
Other debt	12.4	32.3
Total debt	1,070.3	1,162.5
Less: Current portion of debt and short-term borrowings	(119.7)	(17.8)
Long-term debt, less current portion	\$ 950.6	\$ 1,144.7

The following table presents, in millions, scheduled maturities of the Company's debt as of June 30, 2012:

Fiscal Year	
2012 (three months remaining)	\$ 4.4
2013	156.0
2014	152.3
2015	151.8
2016	328.9
Thereafter	276.9
Total	\$ 1,070.3

Unsecured Term Credit Agreements

In September 2011, the Company entered into an Amended and Restated Credit Agreement (the "Term Credit Agreement") with Bank of America, N.A., as administrative agent and a lender, and the other lenders party thereto. Pursuant to the Term Credit Agreement, the Company borrowed \$750 million in term loans on the closing date and may borrow up to an additional \$100 million in term loans upon request by the Company subject to certain conditions, including Company and lender approval. The Company used approximately \$600 million of the proceeds from the loans to repay indebtedness under its prior term loan facility, approximately \$147 million of the proceeds to pay down indebtedness under its revolving credit facility and a portion of the proceeds to pay fees and expenses related to the Term Credit Agreement. The loans under the Term Credit Agreement bear interest, at the Company's option, at either the Base Rate (as defined in the Term Credit Agreement) plus an applicable margin or the Eurodollar Rate (as defined in the Term Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.375% to 1.50% and the applicable margin for Eurodollar Rate loans is a range of 1.375% to 2.50%, both based on the debt-to-earnings leverage ratio of the Company at the end of each fiscal quarter. The initial interest rate of the loans borrowed on September 30, 2011 was the 3 month Eurodollar rate plus 1.75%, or a total of 2.12%. For the nine months ended June 30, 2012 and 2011, the average interest rate of the Company's term loan facility was 2.2% and 3.0%, respectively. Payments of the initial principal amount outstanding under the Term Credit Agreement are required on a quarterly basis beginning on December 31, 2012, while interest payments are made on a quarterly basis beginning December 31, 2011. Any remaining principal of the loans under the Term Credit Agreement is due no later than July 20, 2016.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Accrued interest is payable in arrears on a quarterly basis for Base Rate loans, and at the end of the applicable interest period (but at least every three months) for Eurodollar Rate loans. The Company may optionally prepay the loans at any time, without penalty.

Unsecured Senior Notes

In July 2010, the Company issued \$300 million of notes to private institutional investors. The notes consisted of \$175.0 million of 5.43% Senior Notes, Series A, due July 2020 and \$125.0 million of 1.00% Senior Discount Notes, Series B, due July 2022 for net proceeds of \$249.8 million. The outstanding accreted balance of Series B Notes was \$81.0 million at June 30, 2012, which have an effective interest rate of 5.62%. The fair value of the Company's unsecured senior notes was approximately \$270.6 million at June 30, 2012 and \$259.2 million at September 30, 2011. The Company calculated the fair values based on model-derived valuations using market observable inputs, which are Level 2 inputs under the accounting guidance. The Company's obligations under the notes are guaranteed by certain subsidiaries of the Company pursuant to one or more subsidiary guarantees.

Table of Contents

Unsecured Revolving Credit Facility

In July 2011, the Company entered into a Third Amended and Restated Credit Agreement (the "Revolving Credit Agreement") with Bank of America, N.A., as an administrative agent and a lender and the other lenders party thereto, which amended and restated its unsecured revolving credit facility and increased its available borrowing capacity to \$1.05 billion in order to support its working capital and acquisition needs. The Revolving Credit Agreement has an expiration date of July 20, 2016 and prior to this expiration date, principal amounts outstanding under the Revolving Credit Agreement may be repaid and reborrowed at the option of the Company without prepayment or penalty, subject to certain conditions. The Company may also, at its option, request an increase in the commitments under the facility up to a total of \$1.15 billion, subject to certain conditions, including Company and lender approval. The loans under the Revolving Credit Agreement may be borrowed in dollars or in certain foreign currencies and bear interest, at the Company's option, at either the Base Rate (as defined in the Revolving Credit Agreement) plus an applicable margin or the Eurocurrency Rate (as defined in the Revolving Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.0% to 1.50% and the applicable margin for the Eurocurrency Rate loans is a range of 1.00% to 2.50%, both based on the Company's debt-to-earnings leverage ratio at the end of each fiscal quarter. In addition to these borrowing rates, there is a commitment fee which ranges from 0.150% to 0.375% on any unused commitment. Accrued interest is payable in arrears on a quarterly basis for Base Rate loans, and at the end of the applicable interest period (but at least every three months) for Eurocurrency Loans. At June 30, 2012 and September 30, 2011, \$27.5 million and \$101.4 million, respectively, were outstanding under the revolving credit facility. At June 30, 2012 and September 30, 2011, outstanding standby letters of credit totaled \$37.6 million and \$32.1 million, respectively, under the revolving credit facility. As of June 30, 2012, the Company had \$984.9 million available under its Revolving Credit Agreement.

Covenants and Restrictions

Under the Company's debt agreements relating to its unsecured revolving credit facility and unsecured term credit agreements, the Company is subject to a maximum consolidated leverage ratio at the end of any fiscal quarter. This ratio is calculated by dividing consolidated funded debt (including financial letters of credit) by consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA). For the Company's debt agreements, EBITDA is defined as consolidated net income attributable to AECOM plus interest, depreciation and amortization expense, amounts set aside for taxes and other non-cash items (including a calculated annualized EBITDA from the Company's acquisitions). As of June 30, 2012, the consolidated leverage ratio was 2.16, which did not exceed the Company's most restrictive maximum consolidated leverage ratio of 3.0.

The Company's Revolving Credit Agreement and Term Credit Agreement also contain certain covenants that limit the Company's ability to, among other things, (i) merge with other entities, (ii) enter into a transaction resulting in a change of control, (iii) create new liens, (iv) sell assets outside of the ordinary course of business, (v) enter into transactions with affiliates, (vi) substantially change the general nature of the Company and its subsidiaries taken as a whole, and (vii) incur indebtedness and contingent obligations.

Additionally, the Company's unsecured senior notes contain covenants that limit (i) certain types of indebtedness, which include indebtedness incurred by subsidiaries and indebtedness secured by a lien, (ii) merging with other entities, (iii) entering into a transaction resulting in a change of control, (iv) creating new liens, (v) selling assets outside of the ordinary course of business, (vi) entering into transactions with affiliates, and (vii) substantially changing the general nature of the Company and its subsidiaries taken as a whole. The unsecured senior notes also contain a financial covenant that requires the Company to maintain a net worth above a calculated threshold. The threshold is calculated as \$1.2 billion plus 40% of the consolidated net income for each fiscal quarter commencing with the fiscal quarter ended June 30, 2010. In the calculation of this threshold, the Company cannot include a consolidated net loss that may occur in any fiscal quarter. The Company's net worth for this financial covenant is defined as total AECOM stockholders' equity, which is consolidated stockholders' equity, including any redeemable common stock and stock units and the liquidation preference of any preferred stock. As of June 30, 2012, this amount was \$2.5 billion, which exceeds the calculated threshold of \$1.5 billion.

Should the Company fail to comply with these covenants, all or a portion of its borrowings under the unsecured senior notes and unsecured term credit agreements could become immediately payable and its unsecured revolving credit facility could be terminated. At June 30, 2012 and September 30, 2011, the Company was in compliance with all such covenants.

Table of Contents**Interest Rate Swaps**

The Company uses interest rate swap agreements with financial institutions to fix the variable interest rates on portions of the Company's debt. In September 2011, the Company entered into two interest rate swap agreements to fix the interest rates on \$250.0 million of its debt under the Term Credit Agreement. In December 2011, the Company entered into two additional interest rate swap agreements to fix the interest rate on an additional \$350.0 million of its debt under the Term Credit Agreement. The Company applies cash flow hedge accounting for the interest rate swap agreements. Accordingly, the derivatives are recorded at fair value as assets or liabilities and the effective portion of changes in the fair value of the derivative, as measured quarterly, is reported in other comprehensive income. For the nine months ended June 30, 2012, the amount recorded in other comprehensive income related to the decrease in fair value of the derivatives was \$2.5 million, net of tax. During the next 12 months, the Company expects to reclassify into earnings net losses from accumulated other comprehensive loss of \$1.4 million after tax at the time the underlying hedge transactions are realized. The fixed rates and the related expiration dates of the outstanding swap agreements are as follows:

	Notional Amount (in millions)	Fixed Rate	Expiration Date
\$	250.0	0.95%	September 2015
	200.0	0.68%	December 2014
	150.0	0.55%	December 2013

The Company's average effective interest rate on total borrowings, including the effects of the swaps, during the nine months ended June 30, 2012 and 2011 was 3.1% and 3.2%, respectively.

Notes Secured by Real Properties

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

Other Debt

Other debt consists primarily of bank overdrafts and obligations under capital leases. In addition to the unsecured revolving credit facility discussed above, at June 30, 2012, the Company had \$296.0 million of unsecured credit facilities primarily used to cover periodic overdrafts and standby letters of credit, of which \$187.8 million was utilized for outstanding standby letters of credit.

9. Fair Value Measurements

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it would transact, and the Company considers assumptions that market participants would use when pricing the asset or liability. Interest rate swaps are valued based on the one-month and three-month LIBOR swap rate for similar instruments. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. The Company did not have any assets or liabilities measured at Level 1 or Level 3, or implement any changes in its valuation techniques as of and for the quarter ended June 30, 2012. It measures certain financial and nonfinancial assets and liabilities at fair value on a recurring and nonrecurring basis.

Nonfinancial assets and liabilities include items such as goodwill and long lived assets that are measured at fair value when acquired and resulting from impairment, if deemed necessary. During the nine months ended June 30, 2012 and 2011, the Company did not record any fair value adjustments to those financial and nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Fair Value Hierarchy

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

- *Level 1* Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- *Level 2* Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities.
- *Level 3* Unobservable inputs that are significant to the measurement of the fair value of assets or liabilities.

Table of Contents

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

	June 30, 2012	Quoted Prices in Active Markets for Similar Assets (Level 2)
Foreign currency forwards	\$ 2.1	\$ 2.1
Total assets	\$ 2.1	\$ 2.1
Interest rate swaps (1)	\$ 4.2	\$ 4.2
Foreign currency forwards	0.1	0.1
Total liabilities	\$ 4.3	\$ 4.3

(1) For additional information about the Company's interest rate swaps, refer to Note 8 herein.

	September 30, 2011	Quoted Prices in Active Markets for Similar Assets (Level 2)
Foreign currency forwards	\$ 0.8	\$ 0.8
Total liabilities	\$ 0.8	\$ 0.8

Foreign currency forwards

The Company may enter into foreign currency forwards to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies. The Company records all derivatives on the Consolidated Balance Sheets at fair value. Foreign currency forwards are not designated as hedging instruments, and accordingly, changes in fair value are recorded through earnings.

As of June 30, 2012, the fair value of the Company's four Canadian dollar (CAD) and one Australian dollar (AUD) foreign currency forwards were recorded within prepaid expenses and other current assets, and its British Pound (GBP) foreign currency forward was recorded within other accrued expenses. At September 30, 2011, the fair value of the foreign currency forwards were recorded within other accrued expenses. The Company recognized in earnings a net gain of \$2.8 million on the six foreign currency forwards during the nine months ended June 30, 2012. The contract rates and the related contract maturity dates of the outstanding foreign currency forwards are as follows:

	Total Notional Amount in millions	Contract Rate	Contract Maturity Date
CAD	60.0	1.04	September 2012
CAD	38.0	1.03	July 2012

GBP	19.0	1.60	July 2012
AUD	33.3	1.00	July 2012

10. Share-based Payment

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

Table of Contents

The fair value of options granted to employees during the three and nine months ended June 30, 2011 were determined using the following weighted average assumptions:

	Three Months Ended June 30, 2011	Nine Months Ended June 30, 2011
Dividend yield		
Expected volatility	38.6%	38.6%
Risk-free interest rate	1.5%	1.5%
Term (in years)	4.5	4.5

For the nine months ended June 30, 2012 and 2011, compensation expense recognized related to employee stock options as a result of the fair value method was \$2.0 million and \$3.4 million, respectively. Unrecognized compensation expense relating to employee stock options outstanding as of June 30, 2012 and September 30, 2011 was \$1.8 million and \$3.8 million, respectively, to be recognized on a straight-line basis over the awards' respective vesting periods, which are generally three years.

Stock option activity for the nine months ended June 30 was as follows:

	Shares of stock under options (in millions)	2012 Weighted average exercise price	Shares of stock under options (in millions)	2011 Weighted average exercise price
Outstanding at September 30	2.9	\$ 21.38	3.1	\$ 19.09
Options granted			0.4	27.65
Options exercised	(0.3)	11.20	(0.5)	12.29
Options forfeited or expired		26.52		23.28
Outstanding at June 30	2.6	22.63	3.0	21.30
Vested and expected to vest in the future as of June 30	2.5	\$ 22.59	2.9	\$ 21.18

The weighted average grant-date fair value of stock options granted during the nine months ended June 30, 2011 was \$9.43.

The Company grants stock units to employees under the Performance Earnings Program (PEP), whereby units are earned and issued dependent upon the Company meeting established cumulative performance objectives over a three-year period. The Company recognized compensation expense relating to the PEP of \$2.5 million and \$8.3 million during the nine months ended June 30, 2012 and 2011, respectively. Additionally, the Company issues restricted stock units which are earned based on service conditions, resulting in compensation expense of \$15.2 million and \$9.5 million during the nine months ended June 30, 2012 and 2011, respectively. Unrecognized compensation expense related to PEP units and restricted stock units outstanding was \$9.3 million and \$35.6 million as of June 30, 2012 and \$16.3 million and \$23.8 million as of September 30, 2011, respectively, to be recognized on a straight-line basis over the awards' respective vesting periods which are generally three years.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Cash flows attributable to tax benefits resulting from tax deductions in excess of compensation cost recognized for those stock options (excess tax benefits) is classified as financing cash flows. Excess tax benefits of \$1.1 million and \$61.2 million for the nine months ended June 30, 2012 and 2011, respectively, have been classified as financing cash inflows in the consolidated statements of cash flows.

11. Income Taxes

The effective tax rate was 25.6% and 24.6% for the nine months ended June 30, 2012 and 2011, respectively. The Company is currently at appeals with the U.S. Internal Revenue Service for fiscal 2006 and 2007 and under examination for fiscal 2008 and 2009. During the three months ended June 30, 2012, the Company settled the portion of the examination of the fiscal 2008 and 2009 returns. As a result of the respective settlements of the examination issues, the Company recorded a \$2.9 million benefit net of uncertainties during the quarter ended June 30, 2012.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted on December 17, 2010, retroactively extended the Research and Experimentation Credits which had lapsed on December 31, 2009. As a result of the extension, the Company recognized a \$3.0 million benefit net of uncertainties during the three months ended December 31, 2010 reflecting anticipated credits for the nine-months ended September 30, 2010.

Table of Contents

During the three months ended June 30, 2011, the Company recognized a loss upon the liquidation of a foreign entity resulting in a tax benefit of \$3.3 million, net of uncertainties.

The Company anticipates that the U.S. Internal Revenue Service audits may be concluded in the foreseeable future, including in fiscal 2012. Based on the status of these audits, it is reasonably possible that the conclusion of the audits may result in additional reductions of unrecognized tax benefits. However, it is not possible to estimate the impact of this change at this time due to the early status of the tax examinations.

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

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

	Three Months Ended		Nine Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in millions)			
Denominator for basic earnings per share	110.2	117.9	112.5	117.7
Potential common shares:				
Stock options, other	0.6	1.0	0.7	1.1
Denominator for diluted earnings per share	110.8	118.9	113.2	118.8

For the nine months ended June 30, 2012 and 2011, share-based payment awards excluded from the calculation of potential common shares were not significant. The Company excludes stock options from the computation of diluted EPS when the option's price is greater than the average market price of the Company's common shares. The Company also would exclude common stock equivalent shares from the computation in loss periods as their effect would be anti-dilutive.

13. Other Financial Information

Accrued expenses and other current liabilities consist of the following:

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

	June 30, 2012		September 30, 2011	
	(in millions)			
Accrued salaries and benefits	\$	397.7	\$	417.3
Accrued contract costs		325.3		320.2
Other accrued expenses		60.1		55.2
	\$	783.1	\$	792.7

Accrued contract costs above include balances related to professional liability accruals of \$109.5 million and \$118.4 million as of June 30, 2012 and September 30, 2011, respectively. The remaining accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees.

Other long-term liabilities consist of the following:

	June 30, 2012		September 30, 2011	
	(in millions)			
Pension liabilities (Note 7)	\$	143.6	\$	166.5
Reserve for uncertain tax positions (Note 11)		48.1		61.1
Other		204.4		207.4
	\$	396.1	\$	435.0

Table of Contents

The components of accumulated other comprehensive loss are as follows:

	June 30, 2012	(in millions)	September 30, 2011
Foreign currency translation adjustment	\$ (31.8)		\$ (51.1)
Swap valuation		(2.5)	
Defined benefit minimum pension liability adjustment, net of tax	(135.9)		(136.5)
	\$ (170.2)		\$ (187.6)

14. Commitments and Contingencies

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

In some instances, the Company guarantees that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards. At June 30, 2012, the Company was contingently liable in the amount of approximately \$225.3 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for payment and performance guarantees.

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

Combat Support Associates Joint Venture

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

On March 24, 2010, the U.S. Defense Contract Audit Agency (DCAA) issued a DCAA Form 1 questioning costs incurred during fiscal 2007 by Combat Support Associates (CSA), a consolidated joint venture that includes AECOM Government Services, Inc., in the performance of a U.S. Government contract in Kuwait. The costs in question, which have been recognized as revenue on an accrual basis over the life of the contract, were incurred in paying Service Terminal Indemnity (STI) to CSA's employees at the end of their employment agreements. The DCAA questioned the reasonableness and allowability of the payments on the basis that CSA allegedly paid more than the amount required by the Kuwait Labor Law. As a result of the issuance of the DCAA Form 1, the U.S. Government withheld approximately \$17 million from payments on current year billings pending final resolution of the questioned costs.

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

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

Table of Contents

Global Linguists Solutions Joint Venture

On October 5, 2011 and February 8, 2012, the DCAA issued DCAA Forms 1 questioning costs incurred by Global Linguists Solutions (GLS), an equity method joint venture, of which McNeil Technologies, Inc., acquired by the Company in August 2010, is an owner. The questioned costs were incurred by GLS during fiscal 2009, a period prior to the acquisition. Specifically, the DCAA questioned direct labor, associated burdens, and fees billed to the U.S. Government for linguists that allegedly did not meet specific contract requirements. As a result of the issuance of the DCAA Forms 1, the U.S. Government has withheld approximately \$19 million from payments on current year billings pending final resolution.

GLS is performing a review of the issues raised in the Forms 1 in order to respond fully to the questioned costs. Based on a review, GLS believes that the costs met the applicable contract requirements. However, if the DCAA Forms 1 are not overruled and subsequent appeals are unsuccessful, the decision could have a material adverse effect on the Company's results of operations.

Additionally, on April 20, 2012, GLS received a subpoena from the Inspector General of the U.S. Department of Defense requesting documentation related to this contract with the United States Army. GLS plans to respond fully to the request.

AECOM Australia

In 2005 and 2006, the Company's main Australian subsidiary, AECOM Australia Pty Ltd (AECOM Australia), performed a traffic forecast assignment for a client consortium as part of their project to design, build, finance and operate a tolled motorway tunnel in Australia. To fund the motorway's design and construction, the client formed a special purpose vehicle (SPV) that raised approximately \$700 million Australian dollars through an initial public offering (IPO) of equity units in 2006 and another approximately \$1.4 billion Australian dollars in long term bank loans. The SPV (and certain affiliated SPVs) went into insolvency administrations in February 2011.

A class action lawsuit, which has been amended to include approximately 770 of the IPO investors, was filed against AECOM Australia in the Federal Court of Australia on May 31, 2012. Separately, KordaMentha, the receivers for the SPVs, filed a lawsuit in the Federal Court of Australia on May 14, 2012 claiming damages that purportedly resulted from AECOM Australia's role in connection with the above described traffic forecast. WestLB, one of the lending banks to the SPVs, filed a lawsuit in the Federal Court of Australia on May 18, 2012. Additionally, Centerbridge Credit Partners (and a number of related entities) and Midtown Acquisitions (and a number of related entities), both claiming to be assignees of certain other lending banks, filed their own proceedings in the Federal Court of Australia on May 16, 2012. None of the lawsuits specify the amount of damages sought and the damages sought by WestLB, Centerbridge Credit Partners and Midtown Acquisitions are duplicative of damages already included in the receivers' claim.

AECOM Australia intends to vigorously defend the claims brought against it.

Hawaii Project

The U.S. Attorney's Office (USAO) informed the Company that the USAO and the U.S. Environmental Protection Agency are investigating potential criminal charges in connection with services a subsidiary of the Company provided to the operator of the Waimanalo Gulch Sanitary Landfill in Hawaii. The Company has cooperated fully with the investigation and, as of this date, no actions have been filed. The Company believes that the investigation will show that there has been no criminal wrongdoing on the part of the Company or any of its subsidiaries and, if any actions are brought, the Company intends to vigorously defend against such actions.

The services performed by the subsidiary included the preparation of a pollution control plan, which the operator used to obtain permits necessary for the operation of the landfill. The USAO is investigating whether flooding at the landfill that resulted in the discharge of waste materials and storm water into the Pacific Ocean in December 2010 and January 2011 was due in part to reliance on information contained in the plan prepared by a subsidiary of the Company.

Libyan Project

Due to the civil unrest in Libya, in February 2011, the Company ceased providing services as the program manager for the Libyan Housing and Infrastructure Board's program to modernize the country's infrastructure. The Company cannot currently determine when or if it will resume services. This business disruption resulted in a net expense of \$10.0 million for the three months ended March 31, 2011, primarily comprised of demobilization and shutdown costs, certain asset write-downs and the reversal of certain previously recorded liabilities. As of June 30, 2012 and September 30, 2011, \$25.1 million and \$28.5 million, respectively, of liabilities related to this project are included in the accompanying consolidated balance sheet. The liabilities consist primarily of income taxes payable to Libyan authorities and trade accounts payable.

Table of Contents**15. Reportable Segments**

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

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

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

Reportable Segments:	Professional Technical Services	Management Support Services (in millions)	Corporate	Total
Three Months Ended June 30, 2012:				
Revenue	\$ 1,846.5	\$ 248.7	\$	\$ 2,095.2
Revenue, net of other direct costs(1)	1,164.6	158.9		1,323.5
Gross profit	114.2	(3.0)		111.2
Equity in earnings of joint ventures	5.5	6.8		12.3
General and administrative expenses	—	—	(20.7)	(20.7)
Operating income	119.7	3.8	(20.7)	102.8
Gross profit as a % of revenue	6.2%	(1.2)%		5.3%
Gross profit as a % of revenue, net of other direct costs(1)	9.8%	(1.9)%		8.4%
Three Months Ended June 30, 2011:				
Revenue	\$ 1,772.8	\$ 273.9	\$	\$ 2,046.7
Revenue, net of other direct costs(1)	1,169.8	144.3		1,314.1
Gross profit	110.3	10.9		121.2
Equity in earnings of joint ventures	4.3	8.0		12.3
General and administrative expenses			(23.5)	(23.5)
Operating income	114.6	18.9	(23.5)	110.0
Gross profit as a % of revenue	6.2%	4.0%		5.9%
Gross profit as a % of revenue, net of other direct costs(1)	9.4%	7.6%		9.2%

Table of Contents

Reportable Segments:	Professional Technical Services	Management Support Services	Corporate	Total
	(in millions)			
Nine Months Ended June 30, 2012:				
Revenue	\$ 5,455.0	\$ 680.3	\$	\$ 6,135.3
Revenue, net of other direct costs(1)	3,428.6	415.2		3,843.8
Gross profit	285.4	(7.7)		277.7
Equity in earnings of joint ventures	12.5	25.7		38.2
General and administrative expenses	—	—	(63.2)	(63.2)
Operating income	297.9	18.0	(63.2)	252.7
Gross profit as a % of revenue	5.2%	(1.1)%		4.5%
Gross profit as a % of revenue, net of other direct costs(1)	8.3%	(1.9)%		7.2%
Nine Months Ended June 30, 2011:				
Revenue	\$ 4,994.2	\$ 925.1	\$	\$ 5,919.3
Revenue, net of other direct costs(1)	3,399.3	422.0		3,821.3
Gross profit	287.6	38.7		326.3
Equity in earnings of joint ventures	10.4	21.3		31.7
General and administrative expenses			(70.4)	(70.4)
Operating income	298.0	60.0	(70.4)	287.6
Gross profit as a % of revenue	5.8%	4.2%		5.5%
Gross profit as a % of revenue, net of other direct costs(1)	8.5%	9.2%		8.5%

(1) Non-GAAP measure.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**Forward-Looking Statements**

This Quarterly Report contains certain forward-looking statements, including the plans and objectives of management for our business, operations and economic performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans, is confident that or words of similar nature with reference to us or our management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including, but not limited to, our dependence on long-term government contracts, which are subject to uncertainties concerning the government's budgetary approval process, the possibility that our government contracts may be terminated by the government, the risk of employee misconduct or our failure to comply with laws and regulations, and our ability to successfully execute our mergers and acquisitions strategy, including the integration of new companies into our business. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. 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 professional technical and management support services for public and private sector clients in more than 130 countries around the world. We provide our services in a broad range of end markets and strategic geographic markets through a global network of operating offices and approximately 46,600 employees.

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

Table of Contents

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

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

Our revenue is dependent on our ability to attract and retain qualified and productive employees, identify business opportunities, 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 and other project-related expenses, and sales, general and administrative costs.

Update

As discussed in prior reports, due to the civil unrest in Libya in February 2011, we ceased providing services as the program manager for the Libyan Housing and Infrastructure Board's program to modernize the country's infrastructure. We cannot currently determine when or if we will resume services. For further information regarding this matter, see the discussion in Note 14 in the notes to our consolidated financial statements and below in this Management's Discussion and Analysis section.

During the year ended September 30, 2011, we adopted a revised definition of revenue provided by acquired companies. We define revenue provided by acquired companies as revenue included in the current period up to twelve months subsequent to their acquisition date. Throughout this section, we refer to companies we acquired in the last twelve months as acquired companies.

Components of Income and Expense

Our management analyzes the results of our operations using several non-GAAP measures. As discussed in Overview above, a significant portion of our revenue relates to services provided by subcontractors and other non-employees that we categorize as other direct costs. Those costs are typically paid to service providers upon our receipt of payment from the client. We segregate other direct costs from revenue resulting in a measurement that we refer to as revenue, net of other direct costs, which is a measure of work performed by AECOM employees and, as discussed in Overview above, a large portion of our fees are derived through work performed by AECOM employees rather than other parties.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

We have included information on revenue, net of other direct costs, as we believe that it is useful to view our revenue exclusive of costs associated with external service providers, and the related gross margins, as discussed in Results of Operations below. Because of the importance of maintaining the high quality of work generated by our employees, gross margin, which measures revenue, net of other direct costs after subtracting the cost to generate such revenue, is another important metric that management reviews in evaluating the Company's operating performance.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Revenue, net of other direct costs									
Cost of revenue, net of other direct costs	1,212.3	1,192.9	19.4	1.6	3,566.1	3,495.0	71.1	2.0	
Gross profit	111.2	121.2	(10.0)	(8.3)	277.7	326.3	(48.6)	(14.9)	
Equity in earnings of joint ventures	12.3	12.3	—		38.2	31.7	6.5	20.5	
General and administrative expenses	(20.7)	(23.5)	2.8	(11.9)	(63.2)	(70.4)	7.2	(10.2)	
Income from operations	102.8	110.0	(7.2)	(6.5)	252.7	287.6	(34.9)	(12.1)	
Other income (expense)	1.1	(1.7)	2.8	*	7.4	2.1	5.3	252.4	
Interest expense, net	(12.7)	(10.4)	(2.3)	22.1	(34.5)	(30.3)	(4.2)	13.9	
Income before income tax expense	91.2	97.9	(6.7)	(6.8)	225.6	259.4	(33.8)	(13.0)	
Income tax expense	21.4	23.9	(2.5)	(10.5)	57.7	63.7	(6.0)	(9.4)	
Net income	69.8	74.0	(4.2)	(5.7)	167.9	195.7	(27.8)	(14.2)	
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.4)	(0.2)	(0.2)	100.0	(1.6)	(7.3)	5.7	(78.1)	
Net income attributable to AECOM	\$ 69.4	\$ 73.8	\$ (4.4)	(6.0)%	\$ 166.3	\$ 188.4	\$ (22.1)	(11.7)%	

* Not meaningful

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	91.6	90.8	92.8	91.5
Gross margin	8.4	9.2	7.2	8.5
Equity in earnings of joint ventures	0.9	0.9	1.0	0.8
General and administrative expense	(1.5)	(1.7)	(1.6)	(1.8)
Income from operations	7.8	8.4	6.6	7.5
Other income (expense)	0.1	(0.1)	0.2	0.1
Interest expense, net	(1.0)	(0.9)	(0.9)	(0.8)
Income before income tax expense	6.9	7.4	5.9	6.8
Income tax expense	1.6	1.8	1.5	1.7
Net income	5.3	5.6	4.4	5.1
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.1)		(0.1)	(0.2)
Net income attributable to AECOM	5.2%	5.6%	4.3%	4.9%

Revenue

Our revenue for the three months ended June 30, 2012 increased \$48.5 million, or 2.4%, to \$2,095.2 million as compared to \$2,046.7 million for the corresponding period last year. Revenue provided by acquired companies was \$9.0 million for the three months ended June 30, 2012. Excluding the revenue provided by acquired companies, revenue increased \$39.5 million, or 1.9%, from the three months ended June 30, 2011.

Our revenue for the nine months ended June 30, 2012 increased \$216.0 million, or 3.6%, to \$6,135.3 million as compared to \$5,919.3 million for the corresponding period last year. Revenue provided by acquired companies was \$30.4 million for the nine months ended June 30, 2012. Excluding the revenue provided by acquired companies, revenue increased \$185.6 million, or 3.1%, from the nine months ended June 30, 2011.

The increase in revenue, excluding acquired companies, for the three months ended June 30, 2012, was primarily attributable to increased demand for our engineering and program management services on infrastructure projects in Australia and Asia of approximately \$60 million and \$30 million, respectively, partially offset by the effect of foreign currencies of \$35 million and a reduction in services in our MSS segment noted below of \$25 million.

The increase in revenue, excluding acquired companies, for the nine months ended June 30, 2012 was primarily attributable to increased demand for our construction management services in the Americas of approximately \$250 million, engineering and program management services on infrastructure projects in Australia and Asia of approximately \$150 million and \$70 million, respectively, partially offset by a reduction in services in our MSS segment noted below of approximately \$245 million and a reduction in services provided in Libya of approximately \$30 million.

Revenue, Net of Other Direct Costs

Our revenue, net of other direct costs, for the three months ended June 30, 2012 increased \$9.4 million, or 0.7%, to \$1,323.5 million as compared to \$1,314.1 million for the corresponding period last year. Revenue, net of other direct costs, of \$5.8 million was provided by acquired companies. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$3.6 million, or 0.3%, over the three months ended June 30, 2011.

Our revenue, net of other direct costs, for the nine months ended June 30, 2012 increased \$22.5 million, or 0.6%, to \$3,843.8 million as compared to \$3,821.3 million for the corresponding period last year. Revenue, net of other direct costs, of \$24.3 million was provided by acquired companies. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, decreased \$1.8 million, or 0.0%, over the nine months ended June 30, 2011.

The increase in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, for the three months ended June 30, 2012 was primarily due to increased demand for our engineering and program management services on infrastructure projects in Australia of approximately \$30 million, partially offset by the effect of foreign currencies of \$25 million.

Table of Contents

The decrease in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, for the nine months ended June 30, 2012 was primarily due to decreased engineering and program management services in the United States, the Middle East and Europe of approximately \$50 million, \$30 million, and \$25 million, respectively, and decreased activity in Libya of approximately \$20 million. These decreases were offset by increased demand for our engineering and program management services on infrastructure projects in Australia and Asia of approximately \$80 million and \$60 million, respectively.

Gross Profit

Our gross profit for the three months ended June 30, 2012 decreased \$10.0 million, or 8.3%, to \$111.2 million as compared to \$121.2 million for the corresponding period last year. Gross profit provided by acquired companies was \$0.5 million. Excluding gross profit provided by acquired companies, gross profit decreased \$10.5 million, or 8.7%, from the three months ended June 30, 2011. For the three months ended June 30, 2012, gross profit, as a percentage of revenue, net of other direct costs, decreased to 8.4% from 9.2% in the three months ended June 30, 2011.

Our gross profit for the nine months ended June 30, 2012 decreased \$48.6 million, or 14.9%, to \$277.7 million as compared to \$326.3 million for the corresponding period last year. Gross profit provided by acquired companies was \$3.5 million. Excluding gross profit provided by acquired companies, gross profit decreased \$52.1 million, or 16.0%, from the nine months ended June 30, 2011. For the nine months ended June 30, 2012, gross profit, as a percentage of revenue, net of other direct costs, decreased to 7.2% from 8.5% in the nine months ended June 30, 2011.

The decreases in gross profit and gross profit, as a percentage of revenue, net of other direct costs for the three and nine months ended June 30, 2012 as compared to the corresponding period in the prior year were primarily attributable to reductions in gross profit in our MSS segment noted below.

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended June 30, 2012 was \$12.3 million compared to \$12.3 million in the corresponding period last year. No equity in earnings of joint ventures was provided by acquired companies.

Our equity in earnings of joint ventures for the nine months ended June 30, 2012 increased \$6.5 million, or 20.5%, to \$38.2 million as compared to \$31.7 million in the corresponding period last year. No equity in earnings of joint ventures was provided by acquired companies.

The increase for the nine months ended June 30, 2012 was primarily due to increased activity in joint ventures on projects for the U.S. Army and Department of Energy, partially offset by decreased activity in a joint venture in Iraq for the U.S. Department of Defense.

General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2012 decreased \$2.8 million, or 11.9%, to \$20.7 million as compared to \$23.5 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, general and administrative expenses decreased from 1.7% in the three months ended June 30, 2011 to 1.5% in the three months ended June 30, 2012.

Our general and administrative expenses for the nine months ended June 30, 2012 decreased \$7.2 million, or 10.2%, to \$63.2 million as compared to \$70.4 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, general and administrative expenses decreased from 1.8% in the nine months ended June 30, 2011 to 1.6% in the nine months ended June 30, 2012.

Other Income (Expense)

Our other income for the three months ended June 30, 2012 was \$1.1 million as compared to other expense of \$1.7 million for the three months ended June 30, 2011.

Our other income for the nine months ended June 30, 2012 was \$7.4 million as compared to other income of \$2.1 million for the nine months ended June 30, 2011.

Other income is primarily related to investment earnings.

Table of Contents

Interest Expense, Net

Our net interest expense for the three months ended June 30, 2012 was \$12.7 million as compared to \$10.4 million of net interest expense for the three months ended June 30, 2011.

Our net interest expense for the nine months ended June 30, 2012 was \$34.5 million as compared to \$30.3 million of net interest expense for the nine months ended June 30, 2011.

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

Income Tax Expense

Our income tax expense for the three months ended June 30, 2012 decreased \$2.5 million, or 10.5%, to \$21.4 million as compared to \$23.9 million for the three months ended June 30, 2011. The effective tax rate was 23.4% and 24.5% for the three months ended June 30, 2012 and 2011, respectively.

Our income tax expense for the nine months ended June 30, 2012 decreased \$6.0 million, or 9.4%, to \$57.7 million as compared to \$63.7 million for the nine months ended June 30, 2011. The effective tax rate was 25.6% and 24.6% for the nine months ended June 30, 2012 and 2011, respectively.

The decrease in our effective tax rate for the three months ended June 30, 2012 is primarily attributable to the settlement of a portion of the examination by the U.S. Internal Revenue Service of our fiscal 2008 and 2009 returns. As a result of the respective settlements, we recorded a \$2.9 million benefit net of uncertainties during the quarter ended June 30, 2012.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted on December 17, 2010, retroactively extended the Research and Experimentation Credits which had lapsed on December 31, 2009. As a result of the extension, we recognized a \$3.0 million benefit net of uncertainties during the three months ended December 31, 2010 reflecting anticipated credits for the nine-months ended September 30, 2010.

During the three months ended June 30, 2011, we recognized a loss upon the liquidation of a foreign entity resulting in a tax benefit of \$3.3 million, net of uncertainties.

Net Income Attributable to AECOM

The factors described above resulted in net income attributable to AECOM of \$69.4 million and \$166.3 million for the three and nine months ended June 30, 2012, respectively, as compared to net income attributable to AECOM of \$73.8 million and \$188.4 million for the three and nine months ended June 30, 2011, respectively.

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

	June 30, 2012	Three Months Ended June 30, 2011	Change \$	%	June 30, 2012	Nine Months Ended June 30, 2011	Change \$	%
	(in millions)							
Revenue	\$ 1,846.5	\$ 1,772.8	\$ 73.7	4.2%	\$ 5,455.0	\$ 4,994.2	\$ 460.8	9.2%
Other direct costs	681.9	603.0	78.9	13.1	2,026.4	1,594.9	431.5	27.1
Revenue, net of other direct costs	1,164.6	1,169.8	(5.2)	(0.4)	3,428.6	3,399.3	29.3	0.9
Cost of revenue, net of other direct costs	1,050.4	1,059.5	(9.1)	(0.9)	3,143.2	3,111.7	31.5	1.0
Gross profit	\$ 114.2	\$ 110.3	\$ 3.9	3.5%	\$ 285.4	\$ 287.6	\$ (2.2)	(0.8)%

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

	Three Months Ended June 30, 2012	June 30, 2011	Nine Months Ended June 30, 2012	June 30, 2011
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	90.2	90.6	91.7	91.5
Gross profit	9.8%	9.4%	8.3%	8.5%

Table of Contents

Revenue

Revenue for our PTS segment for the three months ended June 30, 2012 increased \$73.7 million, or 4.2%, to \$1,846.5 million as compared to \$1,772.8 million for the corresponding period last year. Revenue provided by acquired companies was \$9.0 million. Excluding revenue provided by acquired companies, revenue increased \$64.7 million, or 3.6%, over the three months ended June 30, 2011.

Revenue for our PTS segment for the nine months ended June 30, 2012 increased \$460.8 million, or 9.2%, to \$5,455.0 million as compared to \$4,994.2 million for the corresponding period last year. Revenue provided by acquired companies was \$30.4 million. Excluding revenue provided by acquired companies, revenue increased \$430.4 million, or 8.6%, over the nine months ended June 30, 2011.

The increase in revenue, excluding acquired companies, for the three months ended June 30, 2012 was primarily attributable to increased demand for our engineering and program management services on infrastructure projects in Australia and Asia of approximately \$60 million and \$30 million, respectively, partially offset by the effect of foreign currencies of \$35 million.

The increase in revenue, excluding acquired companies, for the nine months ended June 30, 2012 was primarily attributable to increased demand for our construction management services in the Americas of approximately \$250 million, engineering and program management services on infrastructure projects in Australia and Asia of approximately \$150 million and \$70 million, respectively, offset by a reduction in services provided in Libya of approximately \$30 million.

Revenue, Net of Other Direct Costs

Revenue, net of other direct costs, for our PTS segment for the three months ended June 30, 2012 decreased \$5.2 million, or 0.4%, to \$1,164.6 million as compared to \$1,169.8 million for the corresponding period last year. Revenue, net of other direct costs provided by acquired companies was \$5.8 million. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, decreased \$11.0 million, or 0.9%, over the three months ended June 30, 2011.

Revenue, net of other direct costs, for our PTS segment for the nine months ended June 30, 2012 increased \$29.3 million, or 0.9%, to \$3,428.6 million as compared to \$3,399.3 million for the corresponding period last year. Of this increase, \$24.3 million, or 82.9%, was provided by acquired companies. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, increased \$5.0 million, or 0.1%, over the nine months ended June 30, 2011.

The decrease in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, for the three months ended June 30, 2012 was primarily due to the effect of foreign currencies of \$25 million, offset by increased demand for our engineering and program management services on infrastructure projects in Australia of approximately \$30 million. Revenue, net of other direct costs, excluding the effects of acquired companies, was relatively consistent with the prior period primarily due to the increase in subcontractor costs from our construction management services.

The increase in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, for the nine months ended June 30, 2012 was primarily due to increased demand for our engineering and program management services on infrastructure projects in Australia and Asia of approximately \$80 million and \$60 million, respectively, partially offset by decreased engineering and program management services in the United States, the Middle East, and Europe, of \$50 million, \$30 million, and \$25 million, respectively, and decreased activity in Libya of \$20 million. Revenue, net of other direct costs, excluding the effects of acquired companies, was relatively consistent with the prior period primarily due to the increase in subcontractor costs from our construction management services.

Gross Profit

Gross profit for our PTS segment for the three months ended June 30, 2012 increased \$3.9 million, or 3.5%, to \$114.2 million as compared to \$110.3 million for the corresponding period last year. Gross profit provided by acquired companies was \$0.5 million. Excluding gross profit provided by acquired companies, gross profit increased \$3.4 million, or 3.1%, from the three months ended June 30, 2011. As a percentage of revenue, net of other direct costs, gross profit increased to 9.8% of revenue, net of other direct costs, for the three months ended June 30, 2012 from 9.4% in the corresponding period last year.

Gross profit for our PTS segment for the nine months ended June 30, 2012 decreased \$2.2 million, or 0.8%, to \$285.4 million as compared to \$287.6 million for the corresponding period last year. Gross profit provided by acquired companies was \$3.5 million. Excluding gross profit provided by acquired companies, gross profit decreased \$5.7 million, or 2.0%, from the nine months ended June 30, 2011. As a percentage of revenue, net of other direct costs, gross profit decreased to 8.3% of revenue, net of other direct costs, for the nine months ended June 30, 2012 from 8.5% in the corresponding period last year.

Table of ContentsManagement Support Services

Revenue	\$	248.7	\$	273.9	\$	(25.2)	(9.2)%	\$	680.3	\$	925.1	\$	(244.8)	(26.5)%
Other direct costs		89.8		129.6		(39.8)	(30.7)		265.1		503.1		(238.0)	(47.3)
Revenue, net of other direct costs		158.9		144.3		14.6	10.1		415.2		422.0		(6.8)	(1.6)
Cost of revenue, net of other direct costs		161.9		133.4		28.5	21.4		422.9		383.3		39.6	10.3
Gross profit (loss)	\$	(3.0)	\$	10.9	\$	(13.9)	(127.5)%	\$	(7.7)	\$	38.7	\$	(46.4)	(119.9)%

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

	Three Months Ended		Nine Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	101.9	92.4	101.9	90.8
Gross profit (loss)	(1.9)%	7.6%	(1.9)%	9.2%

Revenue

Revenue for our MSS segment for the three months ended June 30, 2012 decreased \$25.2 million, or 9.2%, to \$248.7 million as compared to \$273.9 million for the corresponding period last year. No revenue was provided by acquired companies.

Revenue for our MSS segment for the nine months ended June 30, 2012 decreased \$244.8 million, or 26.5%, to \$680.3 million as compared to \$925.1 million for the corresponding period last year. No revenue was provided by acquired companies.

The decrease in revenue for the nine months ended June 30, 2012 was primarily attributable to reduced U.S. government activities in the Middle East related to the completion in February 2011 of our combat support project, which resulted in an approximate \$210 million reduction in revenue.

Revenue, Net of Other Direct Costs

Revenue, net of other direct costs, for our MSS segment for the three months ended June 30, 2012 increased \$14.6 million, or 10.1%, to \$158.9 million as compared to \$144.3 million for the corresponding period last year. No revenue, net of other direct costs, was provided by acquired companies.

Revenue, net of other direct costs, for our MSS segment for the nine months ended June 30, 2012 decreased \$6.8 million, or 1.6%, to \$415.2 million as compared to \$422.0 million for the corresponding period last year. No revenue, net of other direct costs, was provided by acquired companies.

Gross Profit (Loss)

Gross profit (loss) for our MSS segment for the three months ended June 30, 2012 decreased to \$(3.0) million as compared to \$10.9 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, gross profit (loss) decreased to (1.9)% of revenue, net of other direct costs, for the three months ended June 30, 2012 from 7.6% in the corresponding period last year. No gross profit was provided by acquired companies.

Gross profit (loss) for our MSS segment for the nine months ended June 30, 2012 decreased to \$(7.7) million as compared to \$38.7 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, gross profit (loss) decreased to (1.9)% of revenue, net of other direct costs, for the nine months ended June 30, 2012 from 9.2% in the corresponding period last year. No gross profit was provided by acquired companies.

Table of Contents

The decrease in gross profit (loss) and gross profit (loss), as a percentage of revenue, net of other direct costs, for the three months ended June 30, 2012 was primarily due to projects with decreased performance.

The decrease in gross profit (loss) and gross profit (loss), as a percentage of revenue, net of other direct costs, for the nine months ended June 30, 2012 was primarily due to reduced revenue from a project with the U.S. government in the Middle East as noted in Revenue above and projects with decreased performance.

Seasonality

We experience seasonal trends in our business. The first quarter of our fiscal year (October 1 to December 31) is typically our weakest quarter. The harsher weather conditions impact our ability to complete work in parts of North America and the holiday season schedule affects our productivity during this period. For these reasons, coupled with the number and significance of client contracts commenced and completed during a particular period, as well as the timing of expenses incurred for corporate initiatives, it is not unusual for us to experience seasonal changes or fluctuations in our quarterly operating results. Our revenue is typically higher in the last half of the fiscal year. Many U.S. state governments with fiscal years ending on June 30 tend to accelerate spending during their first quarter, when new funding becomes available. In addition, we find that the U.S. federal government tends to authorize more work during the period preceding the end of our fiscal year, September 30. Further, our construction management revenue typically increases during the high construction season of the summer months. Within the United States, as well as other parts of the world, our business generally benefits from milder weather conditions in our fiscal fourth quarter, which allows for more productivity from our on-site civil services. For these reasons, coupled with the number and significance of client contracts commenced and completed during a period, as well as the time of expenses incurred for corporate initiatives, it is not unusual for us to experience seasonal changes or fluctuations in our quarterly operating results.

Liquidity and Capital Resources

Cash Flows

Our principal sources of liquidity are cash flows from operations, borrowings under our credit facilities, and access to financial markets. Our principal uses of cash are operating expenses, capital expenditures, working capital requirements, acquisitions, repurchases of stock under our stock repurchase program 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. In the quarter ended September 30, 2011, we amended our term credit agreement to increase our bank term loans from \$600 million to \$750 million maturing July 2016, and also increased our borrowing capacity to \$1.05 billion under our revolving credit facility which expires in July 2016.

At June 30, 2012, cash and cash equivalents were \$398.4 million, a decrease of \$58.5 million, or 12.8%, from \$456.9 million at September 30, 2011. The decrease in cash and cash equivalents was primarily attributable to net repayment of borrowings, payments for capital expenditures, and payments to repurchase common stock partially offset by net cash provided by operating activities.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Net cash provided by operating activities was \$207.0 million for the nine months ended June 30, 2012, compared to net cash used in operating activities of \$130.1 million for the nine months ended June 30, 2011. The change was primarily attributable to the payments made in December 2010 for the \$89.7 million settlement of our U.S. deferred compensation plan liability and a decrease of \$60.1 million in excess tax benefit from share-based payments, which was primarily attributable to our U.S. deferred compensation plan distribution in December 2010. The change was also due to the timing of receipts and payments of operating assets and liabilities, which include accounts receivable, accounts payable, accrued expenses, and billings in excess of costs on uncompleted contracts. The increase in net cash provided by operating activities was also partially due to the \$28.2 million of proceeds received from the sale of trade receivables to a financial institution as discussed in Note 5, Accounts Receivable-Net, in the notes to our consolidated financial statements. We expect to continue to sell trade receivables in the future as long as the terms continue to remain favorable to AECOM.

Net cash used in investing activities was \$88.9 million for the nine months ended June 30, 2012, compared with \$381.6 million for the nine months ended June 30, 2011. This decrease was primarily attributable to a \$353.3 million decrease in payments for business acquisitions offset by a \$65.3 million decrease in proceeds from the sale of investments in a rabbi trust due to the settlement of our U.S. deferred compensation plan liability.

Net cash used in financing activities was \$184.7 million for the nine months ended June 30, 2012, compared with net cash provided by financing activities of \$267.0 million for the nine months ended June 30, 2011. The change was primarily attributable to a \$348.0 million decrease in net borrowings under credit agreements, primarily due to reduced business combinations, a decrease of \$60.1 million in excess tax benefit from share-based payments, which was primarily attributable to our U.S. deferred compensation plan distribution in December 2010, and an increase of \$40.5 million in payments to repurchase common stock.

Table of Contents**Working Capital**

Working capital, or current assets less current liabilities, decreased \$133.8 million, or 11.4%, to \$1,041.8 million at June 30, 2012 from \$1,175.6 million at September 30, 2011. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, increased \$64.4 million, or 3.1%, to \$2,119.7 million at June 30, 2012.

Accounts receivable increased 4.3%, or \$103.1 million, to \$2,483.3 million at June 30, 2012 from \$2,380.2 million at September 30, 2011.

Days Sales Outstanding (DSO), including accounts receivable, net of billings in excess of costs on uncompleted contracts, excluding the effects of recent acquisitions, at June 30, 2012, was 92 days compared to the 88 days at September 30, 2011.

In Note 5, 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 as of June 30, 2012 and September 30, 2011 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 significant net receivables related to contract claims as of June 30, 2012 and September 30, 2011. 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.

Borrowings and Lines of Credit

Debt consisted of the following:

	June 30, 2012	September 30, 2011
	(in millions)	
Unsecured term credit agreement	\$ 750.0	\$ 750.0
Unsecured senior notes	256.0	253.6

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Unsecured revolving credit facility	27.5	101.4
Notes secured by real properties	24.4	25.2
Other debt	12.4	32.3
Total debt	1,070.3	1,162.5
Less: Current portion of debt and short-term borrowings	(119.7)	(17.8)
Long-term debt, less current portion	\$ 950.6	\$ 1,144.7

The following table presents, in millions, scheduled maturities of our debt as of June 30, 2012:

Fiscal Year	
2012 (three months remaining)	\$ 4.4
2013	156.0
2014	152.3
2015	151.8
2016	328.9
Thereafter	276.9
Total	\$ 1,070.3

Table of Contents

Unsecured Term Credit Agreement

In September 2011, we entered into an Amended and Restated Credit Agreement (the *Term Credit Agreement*) with Bank of America, N.A., as administrative agent and a lender, and the other lenders party thereto. Pursuant to the Term Credit Agreement, we borrowed \$750 million in term loans on the closing date and may borrow up to an additional \$100 million in term loans upon our request subject to certain conditions, including Company and lender approval. We used approximately \$600 million of the proceeds from the loans to repay indebtedness under our prior term loan facility, approximately \$147 million of the proceeds to pay down indebtedness under our revolving credit facility and a portion of the proceeds to pay fees and expenses related to the Term Credit Agreement. The loans under the Term Credit Agreement bear interest, at our option, at either the Base Rate (as defined in the Term Credit Agreement) plus an applicable margin or the Eurodollar Rate (as defined in the Term Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.375% to 1.50% and the applicable margin for Eurodollar Rate loans is a range of 1.375% to 2.50%, both based on our debt-to-earnings leverage ratio at the end of each fiscal quarter. The initial interest rate of the loans borrowed on September 30, 2011 was the 3 month Eurodollar rate plus 1.75%, or a total of 2.12%. For the nine months ended June 30, 2012 and 2011, the average interest rate of our term loan facility was 2.2% and 3.0%, respectively. Payments of the initial principal amount outstanding under the Term Credit Agreement are required on a quarterly basis beginning on December 31, 2012, while interest payments are made on a quarterly basis beginning December 31, 2011. Any remaining principal of the loans under the Term Credit Agreement is due no later than July 20, 2016. Accrued interest is payable in arrears on a quarterly basis for Base Rate loans, and at the end of the applicable interest period (but at least every three months) for Eurodollar Rate loans. We may optionally prepay the loans at any time, without penalty.

Unsecured Senior Notes

In July 2010, we issued \$300 million of notes to private institutional investors. The notes consisted of \$175.0 million of 5.43% Senior Notes, Series A, due July 2020 and \$125.0 million of 1.00% Senior Discount Notes, Series B, due July 2022 for net proceeds of \$249.8 million. The outstanding accreted balance of Series B Notes was \$81.0 million at June 30, 2012, which have an effective interest rate of 5.62%. The fair value of our unsecured senior notes was approximately \$270.6 million at June 30, 2012 and \$259.2 million at September 30, 2011. We calculated the fair values based on model-derived valuations using market observable inputs, which are Level 2 inputs under the accounting guidance. Our obligations under the notes are guaranteed by certain of our subsidiaries pursuant to one or more subsidiary guarantees.

Unsecured Revolving Credit Facility

In July 2011, we entered into a Third Amended and Restated Credit Agreement (the *Revolving Credit Agreement*) with Bank of America, N.A., as an administrative agent and a lender and the other lenders party thereto, which amended and restated our unsecured revolving credit facility and increased our available borrowing capacity to \$1.05 billion in order to support our working capital and acquisition needs. The Revolving Credit Agreement has an expiration date of July 20, 2016 and prior to this expiration date, principal amounts outstanding under the Revolving Credit Agreement may be repaid and reborrowed at our option without prepayment or penalty, subject to certain conditions. We may also, at our option, request an increase in the commitments under the facility up to a total of \$1.15 billion, subject to certain conditions, including Company and lender approval. The loans under the Revolving Credit Agreement may be borrowed in dollars or in certain foreign currencies and bear interest, at our option, at either the Base Rate (as defined in the Revolving Credit Agreement) plus an applicable margin or the Eurocurrency Rate (as defined in the Revolving Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.0% to 1.50% and the applicable margin for Eurocurrency Rate loans is a range of 1.00% to 2.50%, both based on our debt-to-earnings leverage ratio at the end of each fiscal quarter. In addition to these borrowing rates, there is a commitment fee which ranges from 0.150% to 0.375% on any unused commitment. Accrued interest is payable in arrears on a quarterly basis for Base Rate loans, and at the end of the applicable interest period (but at least every three months) for Eurocurrency Loans. At June 30, 2012 and September 30, 2011, \$27.5 million and \$101.4 million, respectively, were outstanding under our revolving credit facility. At June 30, 2012 and September 30, 2011, outstanding standby letters of

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

credit totaled \$37.6 million and \$32.1 million, respectively, under our revolving credit facility. As of June 30, 2012, we had \$984.9 million available under our Revolving Credit Agreement.

Covenants and Restrictions

Under our debt agreements relating to our unsecured revolving credit facility and unsecured term credit agreements, we are subject to a maximum consolidated leverage ratio at the end of any fiscal quarter. This ratio is calculated by dividing consolidated funded debt (including financial letters of credit) by consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA). For our debt agreements, EBITDA is defined as consolidated net income attributable to AECOM plus interest, depreciation and amortization expense, amounts set aside for taxes and other non-cash items (including a calculated annualized EBITDA from our acquisitions). As of June 30, 2012, our consolidated leverage ratio was 2.16, which did not exceed our most restrictive maximum consolidated leverage ratio of 3.0.

Table of Contents

Our Revolving Credit Agreement and Term Credit Agreement also contain certain covenants that limit our ability to, among other things, (i) merge with other entities, (ii) enter into a transaction resulting in a change of control, (iii) create new liens, (iv) sell assets outside of the ordinary course of business, (v) enter into transactions with affiliates, (vi) substantially change the general nature of the Company and its subsidiaries taken as a whole, and (vii) incur indebtedness and contingent obligations.

Additionally, our unsecured senior notes contain covenants that limit (i) certain types of indebtedness, which include indebtedness incurred by subsidiaries and indebtedness secured by a lien, (ii) merging with other entities, (iii) entering into a transaction resulting in a change of control, (iv) creating new liens, (v) selling assets outside of the ordinary course of business, (vi) entering into transactions with affiliates, and (vii) substantially changing the general nature of the Company and its subsidiaries taken as a whole. The unsecured senior notes also contain a financial covenant that requires us to maintain a net worth above a calculated threshold. The threshold is calculated as \$1.2 billion plus 40% of the consolidated net income for each fiscal quarter commencing with the fiscal quarter ending June 30, 2010. In the calculation of this threshold, we cannot include a consolidated net loss that may occur in any fiscal quarter. Our net worth for this financial covenant is defined as total AECOM stockholders' equity, which is consolidated stockholders' equity, including any redeemable common stock and stock units and the liquidation preference of any preferred stock. As of June 30, 2012, this amount was \$2.5 billion, which exceeds the calculated threshold of \$1.5 billion.

Should we fail to comply with these covenants, all or a portion of our borrowings under the unsecured senior notes and unsecured term credit agreements could become immediately payable and our unsecured revolving credit facility could be terminated. At June 30, 2012 and September 30, 2011, we were in compliance with all such covenants.

Interest Rate Swaps

We use interest rate swap agreements with financial institutions to fix the variable interest rates on portions of our debt. In September 2011, we entered into two interest rate swap agreements to fix the interest rates on \$250.0 million of our debt under the Term Credit Agreement. In December 2011, we entered into two additional interest rate swap agreements to fix the interest rate on an additional \$350.0 million of our debt under the Term Credit Agreement. We apply cash flow hedge accounting for the interest rate swap agreements. Accordingly, the derivatives are recorded at fair value as assets or liabilities and the effective portion of changes in the fair value of the derivative, as measured quarterly, is reported in other comprehensive income. For the nine months ended June 30, 2012, the amount recorded in other comprehensive income related to the decrease in fair value of the derivatives was \$2.5 million. During the next 12 months, we expect to reclassify into earnings net losses from accumulated other comprehensive loss of \$1.4 million after tax at the time the underlying hedge transactions are realized. The fixed rates and the related expiration dates of the outstanding swap agreements are as follows:

	Notional Amount (in millions)	Fixed Rate	Expiration Date
\$	250.0	0.95%	September 2015
	200.0	0.68%	December 2014
	150.0	0.55%	December 2013

Our average effective interest rate on borrowings, including the effects of the swaps, during the nine months ended June 30, 2012 and 2011 was 3.1% and 3.2%, respectively.

Notes Secured by Real Properties

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

Other Debt

Other debt consists primarily of bank overdrafts and obligations under capital leases. In addition to the revolving credit facility discussed above, at June 30, 2012, we had \$296.0 million of unsecured credit facilities primarily used to cover periodic overdrafts and standby letters of credit, of which \$187.8 million was utilized for outstanding standby letters of credit.

Commitments and Contingencies

Other than normal property and equipment additions and replacements, expenditures to further the implementation of our Enterprise Resource Planning 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, as 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 unsecured revolving credit facility and other facilities discussed in Other Debt above, as of June 30, 2012, there was approximately \$225.3 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 plans. The total amounts of employer contributions paid for the nine months ended June 30, 2012 were \$11.6 million for U.S. plans and \$12.9 million for non-U.S. plans. Funding requirements for each plan are determined based on the local laws of the country where such plan resides. In certain countries, the funding requirements are mandatory while in other countries, they are discretionary. We do not have a required minimum contribution for our domestic plans; however, we may make additional discretionary contributions. In the future, such pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors.

Combat Support Associates Joint Venture

On March 24, 2010, the U.S. Defense Contract Audit Agency (DCAA) issued a DCAA Form 1 questioning costs incurred during fiscal 2007 by Combat Support Associates (CSA), a consolidated joint venture that includes AECOM Government Services, Inc., in the performance of a U.S. Government contract in Kuwait. The costs in question, which have been recognized as revenue on an accrual basis over the life of the contract, were incurred in paying Service Terminal Indemnity (STI) to CSA's employees at the end of their employment agreements. The DCAA questioned the reasonableness and allowability of the payments on the basis that CSA allegedly paid more than the amount required by the Kuwait Labor Law. As a result of the issuance of the DCAA Form 1, the U.S. Government withheld approximately \$17 million from payments on current year billings pending final resolution of the questioned costs.

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

We believe, based on advice of Kuwaiti legal counsel, that CSA has been in compliance with STI requirements of Kuwait labor laws. Therefore, we presently believe that, if required, CSA would be successful in obtaining a favorable determination of this matter. However, if the DCAA Form 1 is not overruled and subsequent appeals are unsuccessful, the decision could have a material adverse effect on our results of operations.

Global Linguists Solutions Joint Venture

On October 5, 2011 and February 8, 2012, the DCAA issued DCAA Forms 1 questioning costs incurred by Global Linguists Solutions (GLS), an equity method joint venture, of which McNeil Technologies Inc., which we acquired in August 2010, is an owner. The questioned costs were incurred by GLS during fiscal 2009, a period prior to the acquisition. Specifically, the DCAA questioned direct labor, associated burdens, and fees billed to the U.S. Government for linguists that allegedly did not meet specific contract requirements. As a result of the issuance of the DCAA Forms 1, the U.S. Government has withheld approximately \$19 million from payments on current year billings pending final resolution.

GLS is performing a review of the issues raised in the Forms 1 in order to respond fully to the questioned costs. Based on a review, GLS believes that the costs met the applicable contract requirements. However, if the DCAA Forms 1 are not overruled and subsequent appeals are unsuccessful, the decision could have a material adverse effect on our results of operations.

Additionally, on April 20, 2012, GLS received a subpoena from the Inspector General of the U.S. Department of Defense requesting documentation related to this contract with the United States Army. GLS plans to respond fully to the request.

AECOM Australia

In 2005 and 2006, the Company's main Australian subsidiary, AECOM Australia Pty Ltd (AECOM Australia), performed a traffic forecast assignment for a client consortium as part of their project to design, build, finance and operate a tolled motorway tunnel in Australia. To fund the motorway's design and construction, the client formed a special purpose vehicle (SPV) that raised approximately \$700 million Australian dollars through an initial public offering (IPO) of equity units in 2006 and another approximately \$1.4 billion Australian dollars in long term bank loans. The SPV (and certain affiliated SPVs) went into insolvency administrations in February 2011.

Table of Contents

A class action lawsuit, which has been amended to include approximately 770 of the IPO investors, was filed against AECOM Australia in the Federal Court of Australia on May 31, 2012. Separately, KordaMentha, the receivers for the SPVs, filed a lawsuit in the Federal Court of Australia on May 14, 2012 claiming damages that purportedly resulted from AECOM Australia's role in connection with the above described traffic forecast. WestLB, one of the lending banks to the SPVs, filed a lawsuit in the Federal Court of Australia on May 18, 2012. Additionally, Centerbridge Credit Partners (and a number of related entities) and Midtown Acquisitions (and a number of related entities), both claiming to be assignees of certain other lending banks, filed their own proceedings in the Federal Court of Australia on May 16, 2012. None of the lawsuits specify the amount of damages sought and the damages sought by WestLB, Centerbridge Credit Partners and Midtown Acquisitions are duplicative of damages already included in the receivers' claim.

AECOM Australia intends to vigorously defend the claims brought against it.

Hawaii Project

The U.S. Attorney's Office (USAO) informed us that the USAO and the U.S. Environmental Protection Agency are investigating potential criminal charges in connection with services our subsidiary provided to the operator of the Waimanalo Gulch Sanitary Landfill in Hawaii. We have cooperated fully with the investigation and, as of this date, no actions have been filed. We believe that the investigation will show that there has been no criminal wrongdoing on our part or any of our subsidiaries and, if any actions are brought, we intend to vigorously defend against such actions.

The services performed by the subsidiary included the preparation of a pollution control plan, which the operator used to obtain permits necessary for the operation of the landfill. The USAO is investigating whether flooding at the landfill that resulted in the discharge of waste materials and storm water into the Pacific Ocean in December 2010 and January 2011 was due in part to reliance on information contained in the plan prepared by our subsidiary.

Libyan Project

Due to the civil unrest in Libya, in February 2011, we ceased providing services as the program manager for the Libyan Housing and Infrastructure Board's program to modernize the country's infrastructure. We cannot currently determine when or if we will resume services. This business disruption resulted in a net expense of \$10.0 million for the three months ended March 31, 2011, primarily comprised of demobilization and shutdown costs, certain asset write-downs and the reversal of certain previously recorded liabilities. As of June 30, 2012 and September 30, 2011, \$25.1 million and \$28.5 million, respectively, of liabilities related to this project are included in the accompanying consolidated balance sheet. The liabilities consist primarily of income taxes payable to Libyan authorities and trade accounts payable.

New Accounting Pronouncements and Changes in Accounting

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to fair value measurements. We adopted this guidance for the quarter ended March 31, 2010, except for the portion of the guidance that requires the

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

disclosure of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The Level 3 fair value measurement guidance was adopted by us in our fiscal year beginning October 1, 2011. Since the Company carries no Level 3 assets or liabilities, the adoption of the separate disclosures related to Level 3 measurements did not have a material impact on our consolidated financial statements. Additionally, the FASB issued a new accounting standard on fair value measurements that changes certain fair value measurement principles, clarifies the requirement for measuring fair value and expands disclosure requirements, particularly for Level 3 fair value measurements. This guidance was effective for us in our second quarter ending March 31, 2012 and did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new standard will require companies to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of other comprehensive income in the statement of stockholders' equity. This guidance is effective for us in our fiscal year beginning October 1, 2012 and, although it will change the financial statement presentation, it is not expected to have a material impact on our financial condition or results of operations.

In September 2011, the FASB issued guidance intended to simplify goodwill impairment testing. Entities are allowed to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. We do not expect this guidance will have a material impact on our consolidated financial statements.

Table of Contents

Off-Balance Sheet Arrangements

We enter into various joint venture arrangements to provide architectural, engineering, program management, construction management and operations and maintenance services. The ownership percentage of these joint ventures is typically representative of the work to be performed or the amount of risk assumed by each joint venture partner. Some of these joint ventures are considered variable interest. We have consolidated all joint ventures for which we have control. For all others, our portion of the earnings are recorded in equity in earnings of joint ventures. See Note 6 in the notes to our consolidated financial statements. We do not believe that we have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Financial Market Risks

Financial Market Risks

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

Foreign Exchange Rates

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

Interest Rates

Our senior revolving credit facility and certain other debt obligations are subject to variable rate interest which could be adversely affected by an increase in interest rates. As of June 30, 2012 and September 30, 2011, we had \$777.5 million and \$851.4 million outstanding borrowings, respectively, under our credit facility and certain other variable interest rate debt obligations. Interest on amounts borrowed under the credit

facility and our term credit agreements is subject to adjustment based on certain levels of financial performance. These borrowings are at offshore rates, for which the applicable margin added can range from 1% to 2.5%. For the nine months ended June 30, 2012, our weighted average floating rate borrowings were \$971.4 million. If short term floating interest rates had increased or decreased by 1%, our interest expense for the period would have increased or decreased by \$3.4 million. As discussed above, \$600.0 million of our variable interest rate debt is fixed through our interest rate swaps. We invest our cash in a variety of financial instruments, consisting principally of money market securities or other highly liquid, short-term securities that are subject to minimal credit and market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), were effective as of June 30, 2012 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our quarter ended June 30, 2012 which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

We are involved in various investigations, claims and lawsuits in the normal conduct of our business, none of which, in the opinion of our management, based upon current information and discussions with counsel, is expected to have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business. See Note 14, Commitments and Contingencies, of this report for a discussion of certain matters to which we are a party. From time to time, we establish reserves for litigation when we consider it probable that a loss will occur.

Item 1A. Risk Factors

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.

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

A substantial majority of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal 2011, 2010 and 2009, approximately 64%, 73% and 71%, respectively, of our revenue was derived from contracts with government entities.

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

For instance, a significant portion of historical funding for state and local transportation projects has come from the U.S. federal government through its SAFETEA-LU infrastructure funding program and predecessor programs. Approximately 79% of the SAFETEA-LU funding is for highway programs, 18.5% is for transit programs and 2.5% is for other programs such as motor carrier safety, national highway traffic safety and research. A key uncertainty in the outlook for federal transportation funding in the United States is the future viability of the Highway Trust Fund, which has experienced shortfalls due to a decrease in the federal gas tax receipts that fund it. This raises concerns about the future funding structure for federal highway programs, including the Highway Trust Fund. We currently anticipate that SAFETEA-LU, which is set to expire in September 2012, will be extended by continuing resolutions of Congress as it has been prior to all previous scheduled expirations. If SAFETEA-LU is not extended, it could have a material adverse effect on our financial condition and results of operations.

Table of Contents

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, 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 is scheduled to begin on January 2, 2013, absent legislative or other remedial action, and requires \$1.2 trillion in reduced U.S. federal government spending over a ten-year period. Any significant reduction in federal government spending 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 operation and financial condition.

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

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

Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending. If 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, which may result in clients delaying, curtailing or canceling proposed and existing projects. Economic conditions in the U.S. and a number of other countries and regions, including the United Kingdom, are weak and may remain difficult for the foreseeable future. If global economic and financial market conditions remain weak and/or decline further, some of our clients may face considerable budget shortfalls that may limit their overall demand for our services. In addition, our clients may find it more difficult to raise capital in the future to fund their projects due to uncertainty in the municipal and general credit markets. Also, the global demand for commodities has increased raw material costs, which will cause our clients' projects to increase in overall cost and may result in the more rapid depletion of the funds that are available to our clients to spend on projects.

Where economies are weakening, our clients may demand more favorable pricing or other terms while their ability to pay our invoices or to pay them in a timely manner may be adversely affected. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects. If economic conditions remain uncertain and/or weaken and/or government spending is reduced, our revenue and profitability could be adversely affected.

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

Our books and records are subject to audit by the various governmental agencies we serve and their representatives. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies. For example, as discussed elsewhere in this report, the U.S. Defense Contract Audit Agency (DCAA) issued DCAA Forms 1 questioning costs incurred during fiscal 2007 by Combat Support Associates, a consolidated joint venture that includes AECOM Government Services, Inc., and during fiscal 2009 by Global Linguists Solutions, a joint venture that includes McNeil Technologies, Inc., in the performance of U.S. Government contracts. If either of such matters were 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, 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.

Table of Contents

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 2011, revenue attributable to our services provided outside of the United States to non-U.S. clients was approximately 40% 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.

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

Last year, civil unrest, which initially began in Tunisia and Egypt, spread to other areas in the Middle East and beyond. Due to the civil unrest in Libya in February 2011, we ceased providing services as the program manager for the Libyan Housing and Infrastructure Board's program to modernize the country's infrastructure. We cannot currently determine when or if we will resume services. This business disruption resulted in an operating loss, primarily due to demobilization and shutdown costs, and certain asset write-downs. If civil unrest were to disrupt our business in other countries in the Middle East or other regions in which we operate, and particularly if political activities were to result in prolonged unrest or civil war, 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. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from reckless or criminal acts committed by our employees or agents. Our continued expansion outside the U.S., including in developing countries, could increase the risk of such violations in the future. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations or financial condition.

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

Some of our services are performed in high-risk locations, such as Iraq, and, until recently, Libya, where the country or location is suffering from political, social or economic problems, or war or civil unrest. In those locations where we have employees or operations, we may incur material costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk. Acts of terrorism and threats of armed conflicts in or around various areas in which we operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of key employees and contractors or assets. For example, as discussed above, we incurred losses related to demobilization and shutdown costs related to the cessation of our operations in Libya due to ongoing civil unrests.

Table of Contents

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

Fixed-price contracts require us to either perform all work under the contract for a specified lump-sum or to perform an estimated number of units of work at an agreed price per unit, with the total payment determined by the actual number of units performed. In fiscal 2011, approximately 46% of our revenue was recognized under fixed-price contracts. Fixed-price contracts are more frequently used outside of the United States and, thus, the exposures resulting from fixed-price contracts may increase as we increase our business operations outside of the United States. Fixed-price contracts expose us to a number of risks not inherent in cost-plus and time and material contracts, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond our control, failures of subcontractors to perform and economic or other changes that may occur during the contract period. Losses under fixed-price contracts could be substantial and adversely impact our results of operations.

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

Approximately 15% of our fiscal 2011 revenue was derived from our operations through joint ventures or similar partnership arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners, and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Of the joint ventures noted above, approximately 8% of our fiscal 2011 revenue was derived from our unconsolidated joint ventures where we generally do not have control of the joint venture. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

We have defined benefit pension plans for employees in the United States, United Kingdom, Australia, Ireland, Taiwan and Philippines. At June 30, 2012, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately \$143.6 million. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors. Because the current economic environment has resulted in declining investment returns and interest rates, we may be required to make additional cash contributions to our pension plans and recognize further increases in our net pension cost to satisfy our funding requirements. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our results of operations could be materially and adversely affected.

New legal requirements could adversely affect our operating results.

Our business and results of operations could be adversely affected by the passage of U.S. health care reform, climate change, and other environmental legislation and regulations. Currently, we are assessing the impact that health care reform could have on our employer-sponsored medical plans. Growing concerns about climate change may result in the imposition of additional environmental regulations. For example, legislation, international protocols, regulation or other restrictions on emissions 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.

Table of Contents

However, these changes could also increase the pace of development of other projects, which could have a positive impact on our business. 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.

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

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

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

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

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

There is strong competition for qualified technical and management personnel in the sectors in which we compete. We may not be able to continue to attract and retain qualified technical and management personnel, such as engineers, architects and project managers, who are necessary for the development of our business or to replace qualified personnel. Our planned growth may place increased demands on our resources and will likely require the addition of technical and management personnel and the development of additional expertise by existing personnel. Also, some of our personnel hold 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. 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. 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, 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.

Table of Contents

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

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

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

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

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

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

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

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

At June 30, 2012, our contracted backlog was approximately \$8.4 billion and our awarded backlog was approximately \$7.4 billion for a total backlog of \$15.8 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 not yet been signed. We cannot guarantee that future revenue will be realized from either category of backlog or, if realized, will result in profits. Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time, projects are delayed, scaled back or cancelled. These types of backlog reductions adversely affect the revenue and profits that we ultimately receive from contracts reflected in our backlog.

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

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

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

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

Table of Contents

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, 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 have no 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. If we were found to be liable for any claims related to our client work product, our business could be adversely affected.

Our quarterly operating results may fluctuate significantly.

We experience seasonal trends in our business with our revenue typically being higher in the last half of the fiscal year. Our fourth quarter (July 1 to September 30) typically is our strongest quarter, and our first quarter is typically our weakest quarter. Our quarterly revenue, expenses and operating results may fluctuate significantly because of a number of factors, including:

- the spending cycle of our public sector clients;
- employee hiring and utilization rates;
- the number and significance of client engagements commenced and completed during a quarter;
- the ability of clients to terminate engagements without penalties;
- the ability of our project managers to accurately estimate the percentage of the project completed;

- delays incurred as a result of weather conditions;
- delays incurred in connection with an engagement;
- the size and scope of engagements;
- the timing and magnitude of expenses incurred for, or savings realized from, corporate initiatives;
- changes in foreign currency rates;
- the seasonality of our business;
- the impairment of goodwill or other intangible assets; and
- general economic and political conditions.

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

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. Goodwill and intangible assets-net were \$2.2 billion as of June 30, 2012. Under accounting principles generally accepted in the United States, 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.

Table of Contents

If the fair value of our reporting units is less than their carrying value, we could be required to record an impairment charge. In addition, if a decrease in our stock price and market capitalization continues over a sustained period, we could 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.

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

The state of the global credit markets could make it more difficult for us to access funds, refinance our existing indebtedness, enter into agreements for new indebtedness, replace our existing credit agreement on or before its expiration in 2016 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.

Our debt agreements contain restrictive covenants and financial ratio tests that restrict or prohibit our ability to engage in or enter into a variety of transactions. If we fail to comply with these covenants or tests, our indebtedness under these agreements could become accelerated, which could adversely affect us.

Our debt agreements, including our senior credit facility and the agreement governing our senior notes, contain various covenants that may have the effect of limiting, among other things, our ability and the ability of certain of our subsidiaries to: merge with other entities, enter into a transaction resulting in a change in control, create new liens, incur additional indebtedness, sell assets outside of the ordinary course of business, enter into transactions with affiliates (other than subsidiaries) or substantially change the general nature of our and our subsidiaries' business, taken as a whole; and, in the case of our senior credit facility, make certain investments, enter into restrictive agreements, or make certain dividends or other distributions. These restrictions could limit our ability to take advantage of financing, merger, acquisition or other opportunities, to fund our business operations or to fully implement our current and future operating strategies.

All of our debt agreements relating to our unsecured revolving credit facility and unsecured term credit agreements require us to maintain compliance with a maximum consolidated leverage ratio at the end of any fiscal quarter. The agreement governing our senior notes also requires us to maintain a net worth above a calculated threshold. As of June 30, 2012, our consolidated leverage ratio was 2.15, which did not exceed our most restrictive maximum consolidated leverage ratio of 3.0. As of June 30, 2012, our net worth was \$2.5 billion, which exceeds the calculated threshold of \$1.5 billion. Our ability to continue to meet these financial ratios and tests will be dependent upon our future performance and may be affected by events beyond our control (including factors discussed in this *Risk Factors* section). If we fail to satisfy these requirements, our indebtedness under these agreements could become accelerated and payable at a time when we are unable to pay them. This would adversely affect our ability to implement our operating strategies and would have a material adverse effect on our financial condition.

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

We rely heavily on computer, information and communications technology and related systems in order to properly operate. From time to time, we experience occasional system interruptions and delays. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure and take other steps to improve the efficiency of and protect our systems, the operation of our systems could

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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.

In addition, 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. 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 proprietary information 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 have a material adverse effect on our business, financial condition, results of operations and cash flows.

Table of Contents

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

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

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

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

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

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities***Share Repurchase Program***

In August 2011, the Company's Board of Directors authorized a stock repurchase program (the Repurchase Program), pursuant to which the Company may purchase up to \$200 million of its common stock. Share repurchases under this program may be effected through open market purchases, unsolicited or solicited privately negotiated transactions or other methods, including pursuant to a Rule 10b5-1 plan. The timing, nature and amount of purchases depend on a variety of factors, including market conditions and the volume limit defined by Rule 10b-18. Repurchased shares are retired, but remain authorized for registration and issuance in the future.

A summary of the repurchase activity for the three months ended June 30, 2012 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (Amounts in Millions, Except Per Share Amounts)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
April 1 - 30, 2012	1.1	\$ 22.01	1.1	\$ 0.0
May 1 - 31, 2012	—		—	
June 1 - 30, 2012	—		—	
Total	1.1	22.01	1.1	0.0

Table of Contents**Item 6. Exhibits**

The following documents are filed as Exhibits to the Report:

Exhibit Numbers	Description
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability.

Table of Contents

SIGNATURES

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

AECOM TECHNOLOGY CORPORATION

Date: August 7, 2012

By:

/s/ STEPHEN M. KADENACY
Stephen M. Kadenacy
Executive Vice President and Chief Financial Officer