

AECOM TECHNOLOGY CORP  
Form 10-Q  
February 13, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2007

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

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**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)

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(213) 593-8000

(Registrant's telephone number, including area code)

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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 periods 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of February 6, 2008, 100,201,803 shares of the registrant's common stock were outstanding.







**AECOM TECHNOLOGY CORPORATION**

**INDEX**

PART I.

FINANCIAL INFORMATION

Item 1.

Financial Statements

Condensed Consolidated Balance Sheets as of December 31, 2007 (unaudited) and September 30, 2007

Condensed Consolidated Statements of Income for the Three Months Ended December 31, 2007 (unaudited) and December 31, 2006 (unaudited)

Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended December 31, 2007 (unaudited) and December 31, 2006 (unaudited)

Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2007 (unaudited) and December 31, 2006 (unaudited)

Notes to Condensed Consolidated Financial Statements (unaudited)

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

Item 4T.

Controls and Procedures

PART II.

OTHER INFORMATION

Item 1.

Legal Proceedings

Item 1A.

Risk Factors

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Item 6.

Exhibits

SIGNATURES

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**



**AECOM Technology Corporation**

**Condensed Consolidated Balance Sheets**

**(in thousands, except share data)**

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|   | December 31, 2007<br>(Unaudited) |                  | September 30, 2007  |
|---|----------------------------------|------------------|---------------------|
| <b>ASSETS</b>   |                                  |                  |                     |
| <b>CURRENT ASSETS:</b>  |                                  |                  |                     |
| Cash and cash equivalents   | \$                               | 298,142          | \$ 377,943          |
| Cash in consolidated joint ventures   |                                  | 28,935           | 36,572              |
| Total cash and cash equivalents   |                                  | 327,077          | 414,515             |
| Marketable securities   |                                  | 3,179            | 3,179               |
| Accounts receivable net   |                                  | 1,168,047        | 1,091,682           |
| Prepaid expenses and other current assets   |                                  | 70,971           | 67,087              |
| <b>TOTAL CURRENT ASSETS</b>   |                                  | <b>1,569,274</b> | <b>1,576,463</b>    |
| <b>PROPERTY AND EQUIPMENT:</b>  |                                  |                  |                     |
| Equipment, furniture and fixtures   |                                  | 128,261          | 120,633             |
| Leasehold improvements  |                                  | 55,332           | 48,504              |
| Total   |                                  | 183,593          | 169,137             |
| Accumulated depreciation and amortization   |                                  | (58,713)         | (50,935)            |
| <b>PROPERTY AND EQUIPMENT NET</b>   |                                  | <b>124,880</b>   | <b>118,202</b>      |
| <b>DEFERRED TAX ASSETS NET</b>  |                                  | <b>60,568</b>    | <b>61,594</b>       |
| <b>INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES</b>   |                                  | <b>24,145</b>    | <b>23,551</b>       |
| <b>GOODWILL NET</b>   |                                  | <b>627,944</b>   | <b>592,233</b>      |
| <b>INTANGIBLE ASSETS NET</b>  |                                  | <b>33,876</b>    | <b>30,928</b>       |
| <b>OTHER NON-CURRENT ASSETS</b>   |                                  | <b>90,468</b>    | <b>88,850</b>       |
| <b>TOTAL ASSETS</b>   | <b>\$</b>                        | <b>2,531,155</b> | <b>\$ 2,491,821</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                  |                  |                     |
| <b>CURRENT LIABILITIES:</b>   |                                  |                  |                     |
| Short-term debt   | \$                               | 3,448            | \$ 1,926            |
| Accounts payable and other current liabilities  |                                  | 230,427          | 228,350             |
| Accrued expenses  |                                  | 464,182          | 491,989             |
| Billings in excess of costs on uncompleted contracts  |                                  | 215,826          | 192,400             |
| Income taxes payable  |                                  |                  | 42,664              |
| Deferred tax liability net  |                                  | 18,703           | 14,641              |
| Current portion of long-term obligations  |                                  | 14,315           | 6,838               |
| <b>TOTAL CURRENT LIABILITIES</b>  |                                  | <b>946,901</b>   | <b>978,808</b>      |
| <b>OTHER LONG-TERM LIABILITIES</b>  |                                  | <b>205,652</b>   | <b>174,253</b>      |
| <b>LONG-TERM DEBT</b>   |                                  | <b>30,169</b>    | <b>39,186</b>       |
| <b>MINORITY INTEREST</b>  |                                  | <b>22,244</b>    | <b>21,089</b>       |
| <b>STOCKHOLDERS EQUITY:</b>   |                                  |                  |                     |
| Convertible preferred stock authorized, 7,799,780; issued and outstanding, 42,370 and 49,779 shares at December 31 and September 30, 2007; respectively, \$100 liquidation preference value         |                                  | 4,237            | 4,978               |
| Preferred stock, Class C authorized, 200 shares; issued and outstanding, 71 and 72 shares as of December 31 and September 30, 2007, respectively; no par value, \$1.00 liquidation preference value |                                  |                  |                     |
| Preferred stock, Class E authorized, 20 shares; issued and outstanding, 5 shares as of December 31 and September 30, 2007; no par value, \$1.00 liquidation preference value                        |                                  |                  |                     |
| Common stock authorized, 150,000,000 shares of \$0.01 par value; issued and outstanding, 99,758,333 and 99,061,692, as of December 31 and September 30, 2007, respectively                          |                                  | 998              | 991                 |
| Additional paid-in capital  |                                  | 1,244,075        | 1,224,164           |
| Accumulated other comprehensive loss  |                                  | (27,121)         | (26,211)            |
| Retained earnings   |                                  | 104,000          | 74,563              |
| <b>TOTAL STOCKHOLDERS EQUITY</b>  |                                  | <b>1,326,189</b> | <b>1,278,485</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$</b>                        | <b>2,531,155</b> | <b>\$ 2,491,821</b> |

See accompanying Notes to Condensed Consolidated Financial Statements.





## AECOM Technology Corporation

## Condensed Consolidated Statements of Income

(unaudited - in thousands, except per share data)

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2007 | December 31,<br>2006 |
| Revenue                                      | \$ 1,080,250         | \$ 938,549           |
| Cost of revenue                              | 753,658              | 690,130              |
| Gross profit                                 | 326,592              | 248,419              |
| Equity in earnings of joint ventures         | 2,842                | 1,417                |
| General and administrative expenses          | 284,902              | 219,828              |
| Income from operations                       | 44,532               | 30,008               |
| Minority interest in share of earnings       | 1,279                | 1,586                |
| Gain on sale of equity investment            |                      | 11,286               |
| Interest income (expense), net               | 1,433                | (1,075)              |
| Income before income tax expense             | 44,686               | 38,633               |
| Income tax expense                           | 15,193               | 13,113               |
| Net income                                   | \$ 29,493            | \$ 25,520            |
| Net income allocation:                       |                      |                      |
| Preferred stock dividend                     | \$ 56                | \$ 29                |
| Net income available for common stockholders | 29,437               | 25,491               |
| Net income                                   | \$ 29,493            | \$ 25,520            |
| Net income per share:                        |                      |                      |
| Basic  | \$ 0.30              | \$ 0.44              |
| Diluted                                      | \$ 0.29              | \$ 0.32              |
| Weighted average shares outstanding:         |                      |                      |
| Basic  | 99,644               | 57,600               |
| Diluted                                      | 103,025              | 79,036               |

## Condensed Consolidated Statements of Comprehensive Income

(unaudited in thousands)

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2007 | December 31,<br>2006 |
| Net income                               | \$ 29,493            | \$ 25,520            |
| Other comprehensive income:              |                      |                      |
| Foreign currency translation adjustments | (910)                | 2,975                |
| Comprehensive income                     | \$ 28,583            | \$ 28,495            |

See accompanying Notes to Condensed Consolidated Financial Statements.

## AECOM Technology Corporation

## Condensed Consolidated Statements of Cash Flows

(unaudited - in thousands)

|   | Three Months Ended<br>December 31, |            |
|---|------------------------------------|------------|
|   | 2007                               | 2006       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                    |            |
| Net income  | \$ 29,493                          | \$ 25,520  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |            |
| Depreciation and amortization   | 11,567                             | 6,970      |
| Equity in earnings of unconsolidated joint ventures                               | (2,842)                            | (1,417)    |
| Distribution of earnings from unconsolidated affiliates                           | 2,262                              | 108        |
| Stock based compensation  | 5,111                              | 7,048      |
| Excess tax benefit from share based payment                                       | (4,910)                            |            |
| Interest income on notes from stockholders  |                                    | (532)      |
| Foreign currency translation  | (46)                               | (954)      |
| Gain on sale of equity investment   |                                    | (11,286)   |
| Changes in operating assets and liabilities, net of effects of acquisitions:      |                                    |            |
| Accounts receivable   | (49,665)                           | (8,626)    |
| Prepaid expenses and other assets   | 1,624                              | (10,337)   |
| Accounts payable  | (3,222)                            | 3,711      |
| Accrued expenses and other current liabilities                                    | (39,507)                           | (10,520)   |
| Billings in excess of costs on uncompleted contracts                              | 21,626                             | 24,183     |
| Other long-term liabilities   | (5,215)                            | 3,652      |
| Income taxes receivable/payable   | (1,993)                            | 16,148     |
| Net cash (used in) provided by operating activities                               | (35,717)                           | 43,668     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                    |            |
| Payments for business acquisitions, net of cash acquired                          | (44,652)                           | (6,200)    |
| Net investment in unconsolidated affiliates                                       | (13)                               | (3,034)    |
| Payments for capital expenditures   | (10,908)                           | (10,093)   |
| Proceeds from sale of equity investment   |                                    | 14,683     |
| Net cash used in investing activities   | (55,573)                           | (4,644)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                    |            |
| Proceeds from borrowings under credit agreements                                  |                                    | 2,681      |
| Repayments of borrowings under long-term obligations                              | (2,718)                            | (7,000)    |
| Proceeds from issuance of common stock  | 3,791                              | 20,210     |
| Proceeds from exercise of stock options   | 2,185                              | 521        |
| Payments to repurchase common stock   | (4,050)                            | (46,846)   |
| Proceeds from payment of notes receivable from stockholders                       |                                    | 477        |
| Excess tax benefit from share based payment                                       | 4,910                              | 178        |
| Net cash provided by (used in) financing activities                               | 4,118                              | (29,779)   |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH   | (266)                              | 659        |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                              | (87,438)                           | 9,904      |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 414,515                            | 127,870    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 327,077                         | \$ 137,774 |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITY</b>                                  |                                    |            |
| Common stock issued in acquisitions   | \$ 3,979                           | \$ 800     |

**See accompanying Notes to Condensed Consolidated Financial Statements.**













**AECOM Technology Corporation**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**



## 1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2007, the condensed consolidated statements of income and of cash flows for the three months ended December 31, 2007 and 2006 of AECOM Technology Corporation (the Company) are unaudited and, in the opinion of management, include all adjustments necessary for a fair statement of the Company's financial position and results of operations for the periods presented. All inter-company balances and transactions are eliminated in consolidation.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K as filed with the Securities and Exchange Commission (the SEC) on December 13, 2007 for the fiscal year ended September 30, 2007.

The results of operations for the three months ended December 31, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2008.

All share and per share amounts reflect, on a retroactive basis, the 2-for-1 stock split effected in the form of a 100% stock dividend wherein one additional share of stock was issued effective May 4, 2007 for each share outstanding as of the record date of May 4, 2007.

## 2. Adoption of Change in Accounting Principle

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in recognizing income taxes in accordance with FASB Statement No. 109 by providing detailed guidance for financial statement recognition, measurement and disclosure involving uncertain tax positions. FIN 48 requires an uncertain tax position to meet a "more-likely-than-not" recognition threshold at the effective date to be recognized both upon the adoption of FIN 48 and subsequent periods. FIN 48 is effective for fiscal years beginning after December 15, 2006. As the provisions of FIN 48 are to be applied to all tax positions upon initial adoption, the cumulative effect of applying the provision of FIN 48 were reported as an adjustment to the opening balance of retained earnings for as of October 1, 2007. Additionally, FIN 48 provides guidance on recognition or de-recognition of interest and penalties, changes in judgment in interim periods, and disclosures of uncertain tax positions. FIN 48 became effective for the Company in the first quarter of fiscal year ended September 30, 2008. The adoption of FIN 48 did not have a material effect on the Company's financial statements. For additional information on the adoption of FIN 48, see Note 12 - Income Taxes.

## 3. Initial Public Offering

In May 2007, the Company completed the initial public offering (IPO) of 40.4 million shares of common stock, which included the exercise of the underwriters' over-allotment option to purchase 5.3 million shares, at \$20.00 per share, before underwriting discounts and commissions. Of the total shares sold in the offering, 15.3 million were sold by stockholders of the Company. Proceeds to AECOM, net of underwriting discounts, commissions, and other offering related costs, were approximately \$468.3 million, of which \$75.4 million was used to fund elections by employees to diversify their holdings in the Company's stock purchase plan.

## 4. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Total cash and cash equivalents include cash in consolidated joint ventures.



**5. Accounts Receivable Net**

Net accounts receivable consisted of the following as of December 31, 2007 and September 30, 2007:

|  | December 31,<br>2007 | September 30,<br>2007 |
|--|----------------------|-----------------------|
|  | (in thousands)       |                       |
| Billed   | \$ 652,769           | \$ 635,996            |
| Unbilled   | 529,717              | 466,612               |
| Contract retentions                                  | 40,889               | 40,522                |
| Total accounts receivable gross                      | 1,223,375            | 1,143,130             |
| Allowance for doubtful accounts                      | (55,328)             | (51,448)              |
| Total accounts receivable net                        | \$ 1,168,047         | \$ 1,091,682          |
| Billings in excess of costs on uncompleted contracts | \$ 215,826           | \$ 192,400            |

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 31, 2007 and September 30, 2007 are expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding several months or years.

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

Other than the U.S. government, no single client accounted for more than 10% of the Company's accounts receivable as of December 31, 2007 or September 30, 2007.

**6. Goodwill and Acquired Intangible Assets**



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The changes in the carrying value of goodwill by reporting segment for the three months ended December 31, 2007 were as follows:

|                                 | September 30,<br>2007 | Post-<br>Acquisition<br>Adjustments<br>(in thousands) | Acquired         | December 31,<br>2007 |
|---------------------------------|-----------------------|---|------------------|----------------------|
| Professional Technical Services | \$ 583,807            | \$ 5,600  | \$ 35,711        | \$ 625,118           |
| Management Support Services     | 8,426                 | (5,600)   |                  | 2,826                |
| <b>Total</b>                    | <b>\$ 592,233</b>     | <b>\$</b>   | <b>\$ 35,711</b> | <b>\$ 627,944</b>    |

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 31, 2007 and September 30, 2007, included in intangible and other assets net in the accompanying condensed consolidated balance sheets, were as follows:

|                        | December 31, 2007 |                             | September 30, 2007 |                             |
|------------------------|-------------------|-----------------------------|--------------------|-----------------------------|
|                        | Gross<br>Amount   | Accumulated<br>Amortization | Gross<br>Amount    | Accumulated<br>Amortization |
|                        | (in thousands)    |                             |                    |                             |
| Backlog                | \$ 31,469         | \$ 26,094                   | \$ 28,669          | \$ 24,849                   |
| Customer Relationships | 32,509            | 5,413                       | 30,478             | 4,645                       |
| Trade-Names            | 2,019             | 614                         | 1,764              | 489                         |
| <b>Total</b>           | <b>\$ 65,997</b>  | <b>\$ 32,121</b>            | <b>\$ 60,911</b>   | <b>\$ 29,983</b>            |

At the time of an acquisition, the Company estimates the amount of the identifiable intangible assets acquired based upon historical valuations and the facts and circumstances available at the time. The Company determines the value of the identifiable intangible assets during the purchase allocation period, which does not extend beyond 12 months from the date of acquisition. However, based upon the date of acquisition, the purchase allocation period may cross into subsequent fiscal periods.

The following table presents estimated amortization expense for the remainder of fiscal 2008 and for the succeeding years:

| <b>Fiscal Year</b> | <b>(in thousands)</b> |
|--------------------|-----------------------|
| 2008               | \$ 6,962              |
| 2009               | 5,818                 |
| 2010               | 3,637                 |
| 2011               | 3,089                 |
| 2012               | 2,922                 |
| Thereafter         | 11,448                |
| <b>Total</b>       | <b>\$ 33,876</b>      |

7. Disclosures About Pension Benefit Obligations



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The Company's pension cost for the three months ended December 31, 2007 and 2006 includes the following components:

### U.S. Plans

|   | Three Months Ended<br>December 31, |          |
|---|------------------------------------|----------|
|   | 2007                               | 2006     |
|   | (in thousands)                     |          |
| Service costs                                 | \$ 563                             | \$ 651   |
| Interest cost on projected benefit obligation | 1,912                              | 1,876    |
| Expected return on plan assets                | (1,778)                            | (1,719)  |
| Amortization of prior service costs           | (290)                              | (289)    |
| Amortization of net loss                      | 833                                | 982      |
| Net periodic benefit cost                     | \$ 1,240                           | \$ 1,501 |

### Non-U.S. Plans

|   | Three Months Ended<br>December 31, |          |
|---|------------------------------------|----------|
|   | 2007                               | 2006     |
|   | (in thousands)                     |          |
| Service costs                                 | \$ 1,087                           | \$ 1,218 |
| Interest cost on projected benefit obligation | 4,898                              | 4,282    |
| Expected return on plan assets                | (5,303)                            | (3,960)  |
| Amortization of prior service costs           | (103)                              | (97)     |
| Amortization of net loss                      | 795                                | 949      |
| Net periodic benefit cost                     | \$ 1,374                           | \$ 2,392 |

The total amounts of employer contributions paid for the three months ended December 31, 2007 were \$0.1 million for U.S. plans and \$3.9 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2008 are \$3.6 million for U.S. plans and \$11.5 million for non-U.S. plans.

## 8. Reportable Segments



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The Company's operations are organized into two reportable segments: Professional Technical Services and Management Support Services. This segmentation corresponds to how the Company manages its business as well as the underlying characteristics of its markets.

Management internally analyzes the results of the Company's segments and operations using the non-GAAP measure of revenue, net of other direct costs, which is a measure of work performed by the Company obtained by subtracting subcontractor fees and related costs from revenue.



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

| Reportable Segments:                                      | Professional<br>Technical<br>Services | Management<br>Support<br>Services | Corporate | Total        |
|---|---------------------------------------|-----------------------------------|-----------|--------------|
|   | (in thousands)                        |                                   |           |              |
| <b>Three Months Ended December 31, 2007:</b>              |                                       |                                   |           |              |
| Revenue   | \$ 893,441                            | \$ 186,809                        | \$        | \$ 1,080,250 |
| Revenue, net of other direct costs                        | 648,525                               | 27,061                            |           | 675,586      |
| Gross profit  | 319,288                               | 7,304                             |           | 326,592      |
| Gross profit as a % of revenue                            | 35.7%                                 | 3.9%                              |           | 30.2%        |
| Gross profit as a % of revenue, net of other direct costs | 49.2%                                 | 27.0%                             |           | 48.3%        |
| Equity in earnings of joint ventures                      | 1,032                                 | 1,810                             |           | 2,842        |
| General and administrative expenses                       | 269,098                               | 5,690                             | 10,114    | 284,902      |
| Operating income  | 51,222                                | 3,424                             | (10,114)  | 44,532       |
| Segment assets  | 2,040,270                             | 176,569                           | 314,316   | 2,531,155    |
| <b>Three Months Ended December 31, 2006:</b>              |                                       |                                   |           |              |
| Revenue   | \$ 753,869                            | \$ 184,680                        | \$        | \$ 938,549   |
| Revenue, net of other direct costs                        | 483,047                               | 20,087                            |           | 503,134      |
| Gross profit  | 240,302                               | 8,117                             |           | 248,419      |
| Gross profit as a % of revenue                            | 31.9%                                 | 4.4%                              |           | 26.5%        |
| Gross profit as a % of revenue, net of other direct costs | 49.7%                                 | 40.4%                             |           | 49.4%        |
| Equity in earnings of joint ventures                      | (785)                                 | 2,202                             |           | 1,417        |
| General and administrative expenses                       | 203,679                               | 5,771                             | 10,378    | 219,828      |
| Operating income  | 35,838                                | 4,548                             | (10,378)  | 30,008       |

**9. Stock-Based Compensation**



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In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) that requires the Company to expense the value of employee stock options and similar awards. Under SFAS 123R, share-based payment (SBP) awards result in a cost that will be measured at fair value on the awards' grant dates, based on the estimated number of awards that are expected to vest.

SFAS 123R became effective for the Company on October 1, 2006. Upon adoption of SFAS 123R, the Company implemented the prospective transition method. Under this method, prior periods were not restated to reflect the impact of SFAS 123R. SFAS 123R requires that the Company recognize as compensation expense the fair value of all stock-based awards, including stock options, granted to employees and directors in exchange for services over the requisite service period, which is typically the vesting period. SFAS 123R also requires that cash flows resulting from tax benefits realized from stock option exercises or stock vesting events in excess of tax benefits recognized from stock-based compensation expenses be classified as cash flows from financing activities instead of cash flows from operating activities for awards subject to SFAS 123R.

Prior to October 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB Opinion No. 25) and related interpretations. Under the intrinsic value method, no compensation expense was reflected in the statement of income for stock options granted to employees, as all stock options had an exercise price equal to the fair value of the underlying common stock on the date of grant.

Under the prospective transition method, the Company continues to account for options granted prior to October 1, 2006 under the provisions of APB Opinion No. 25 to the extent vested. Since stock options had an exercise price equal to the fair value of the underlying common stock on the date of grant, no compensation expense will be recognized for options granted prior to October 1, 2006 unless modifications are made to those options. Prior to the adoption of SFAS 123R, the fair value of stock options used to disclose pro forma net income and earnings per share disclosures was the estimated value using the minimum value method as allowed for non-public companies. The adoption of SFAS 123R did not have a material effect on the Company's results of operations, financial position, or cash flows.

The fair value of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The expected term of awards granted represents the period of time the awards are expected to be outstanding. As the Company's common stock has only recently become publicly-traded, 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 the yield curve of a zero-coupon U.S. Treasury bond with a maturity 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.

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The fair value of options granted during the three months ended December 31, 2007 and 2006 were determined using the following weighted average assumptions:

|                         | Three Months Ended December 31, |      |
|-------------------------|---------------------------------|------|
|                         | 2007                            | 2006 |
| Dividend yield          |                                 |      |
| Expected volatility     | 33%                             | 25%  |
| Risk-free interest rate | 3.5%                            | 4.6% |
| Term (in years)         | 4.5                             | 7.0  |

Under SFAS 123R, the Company's net income for the three months ended December 31, 2007 was \$0.4 million lower than under the Company's previous accounting method, as a result of recognizing the fair value of stock options as an expense.

Stock option activity for the three months ended December 31, 2007 and 2006 was as follows:

|   | 2007   |                                 | 2006   |                                 |
|---|--|---------------------------------|--|---------------------------------|
|   | Shares of stock under options (in thousands) | Weighted average exercise price | Shares of stock under options (in thousands) | Weighted average exercise price |
| Outstanding at September 30                                 | 7,728  | \$ 9.27                         | 8,929  | \$ 8.43                         |
| Options granted   | 329  | 27.75                           | 465  | 14.20                           |
| Options exercised   | 681  | 7.63                            | 48   | 13.84                           |
| Options forfeited or expired                                | 1  | 15.41                           | 2  | 10.95                           |
| Outstanding at December 31                                  | 7,375  | 10.25                           | 9,344  | 8.70                            |
| Vested and expected to vest in the future as of December 31 | 7,355  | \$ 10.23                        | 9,333  | \$ 8.69                         |

The weighted average grant-date fair value of stock options granted during the three months ended December 31, 2007 was \$9.13.

## 10. Earnings Per Share



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

See also Note 3 regarding the effects of the IPO on outstanding shares.

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

|  | Three Months Ended                    |                      |
|--|---------------------------------------|----------------------|
|  | December 31,<br>2007                  | December 31,<br>2006 |
|  | (in thousands, except per share data) |                      |
| Denominator for basic earnings per share   | 99,644                                | 57,600               |
| Potential common shares:                   |                                       |                      |
| Preferred stock, Class F and G             |                                       | 18,746               |
| Stock options                              | 3,236                                 | 2,236                |
| Other                                      | 145                                   | 454                  |
| Denominator for diluted earnings per share | 103,025                               | 79,036               |

For the three months ended December 31, 2007 and 2006, no stock options were excluded from the calculation or were considered anti-dilutive.

### 11. Commitments and Contingencies





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The Company is subject to certain claims and lawsuits typically filed against the engineering and consulting profession, alleging primarily professional errors or omissions. The Company carries professional liability insurance against such claims, subject to certain deductibles and policy limits. From time to time, the Company establishes reserves for litigation that is considered a probable loss. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

At December 31, 2007, the Company was contingently liable in the amount of approximately \$58.2 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for

payment and performance guarantees relating to domestic and overseas contracts. In addition, 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.

Under joint venture arrangements, if a partner is financially unable to complete its share of the contract, the other partner(s) will generally 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 is a partner in certain joint ventures where the joint venture has contracted with subconsultants for certain specialized professional services. The joint venture, or the Company to the extent that the joint venture partner(s) are unable to fulfill their responsibilities, is liable to the third-party customer for performance of the sub-consultant and would be liable to the sub-consultant if the third-party customer fails to make payments due the joint venture for sub-consultant services.

## 12. Income Taxes



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On October 1, 2007, the Company adopted the provisions of FIN 48. Under FIN 48, differences between the amounts recognized in the consolidated financial statements prior to the adoption of FIN 48 and the amounts reported as a result of adoption are to be accounted for as a cumulative effect adjustment recorded to retained earnings. The adoption of FIN 48 did not have a material impact to the Company's financial statements.

As of the adoption date, the liability for income taxes associated with uncertain tax positions was \$34.8 million and the related interest on the liability was \$1.6 million (net of related tax benefits). If recognized, \$33.0 million of these amounts would be recorded as a benefit to income taxes on the Condensed Consolidated Statement of Income and, therefore would reduce the Company's future effective tax rate. The remaining \$3.4 million would reduce deferred tax balances and amounts primarily arising from business combinations which, if recognized, would be recorded as reductions to goodwill.

As of December 31, 2007, the liability for income tax associated with uncertain tax positions was \$35.7 million and the related interest on the liability was \$2.0 million (net of related tax benefits). If recognized, \$34.3 million of these amounts would be recorded as a benefit to income taxes on the Condensed Consolidated Statement of Income and, therefore would reduce the Company's future effective tax rate. The remaining \$3.4 million would reduce deferred tax balances and amounts primarily arising from business combinations which, if recognized, would be recorded as reductions to goodwill.

The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions in tax expense. At adoption, the Company had accrued \$1.6 million of interest and penalties (net of \$1.0 million tax benefit) related to uncertain tax positions and, as of December 31, 2007, the Company had accrued \$2.0 million of interest and penalties (net of \$1.2 million tax benefit) related to uncertain tax positions.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2000. The expiration of the statutes of limitation within the next twelve months for various jurisdictions is expected to reduce the Company's uncertain tax position balance by approximately \$2.3 million.

While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes reserves for income taxes represent the most probable outcome. The Company adjusts these reserves, including those for the related interest, in light of changing facts and circumstance.

### **13. Recently Issued Accounting Pronouncements**



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In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 will be effective for the Company's fiscal year ending September 30, 2009. The Company is currently evaluating the potential impact of the provisions of SFAS 159 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. The provisions of SFAS 157 will be effective for the Company's fiscal year ending September 30, 2009. The Company is currently evaluating the potential impact of the provisions of SFAS 157 on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R significantly changes the way companies account for business combinations and will generally require more assets acquired and liabilities assumed to be measured at their acquisition-date fair value. Under SFAS 141R, legal fees and other transaction-related costs are expensed as incurred and are no longer included in goodwill as a cost of acquiring the business. SFAS 141R also requires, among other things, acquirers to estimate the acquisition-date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. In addition, restructuring costs the acquirer expected, but was not obligated to incur, will be recognized separately from the business acquisition. This accounting standard is effective for the Company's year ending September 30, 2010. The Company is currently evaluating the impact of SFAS 141R on its financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires all entities to report noncontrolling interests in subsidiaries as a separate component of equity in the consolidated financial statements. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. Companies will no longer recognize a gain or loss on partial disposals of a subsidiary where control is retained. In addition, in partial acquisitions, where control is obtained, the acquiring company will recognize and measure at fair value 100 percent of the assets and liabilities, including goodwill, as if the entire target company had been acquired. SFAS 160 is effective for the Company's year ending September 30, 2010. The Company is currently evaluating the impact of SFAS 160 on its financial statements.

#### **14. Subsequent Events**

The Company announced on February 12, 2008 that it had entered into an agreement to purchase Earth Tech, Inc., an engineering services unit of Tyco International, for approximately \$510 million cash. The transaction is described in more detail in a current report on Form 8-K filed by the Company on February 12, 2008. In addition, the Company also announced in February 2008 that it had entered into agreements to acquire Boyle Engineering Corporation, a Newport Beach, California based engineering services firm and Tecslut Inc., a Montreal, Canada based engineering services firm.

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

### Overview

We are a leading global provider of professional technical and management support services for commercial and government clients around the world. We provide our services in a broad range of end markets and strategic geographic markets through a global network of operating offices and more than 33,000 employees and staff employed in the field on projects.

Our business focuses primarily on providing fee-based professional technical and support services and we are therefore 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 and our ability to manage our costs. We operate our business through two segments: Professional Technical Services (PTS) and Management Support Services (MSS).

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

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



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

Our costs are driven primarily by 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 overhead costs.

### **Components of Income and Expense**



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Our management internally analyzes the results of operations using several non-GAAP measures. A significant portion of our revenue relates to services provided by subcontractors and other non-employees that the Company categorizes as other direct costs. Those pass-through costs are typically paid to service providers upon our receipt of payment from the client. Other direct costs are segregated from cost of revenue resulting in revenue, net of other direct costs, which is a measure of work performed by AECOM employees. We have included information on revenue, net of other direct costs, as we believe that it is a more accurate measure on which to base gross margin.

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

|  | Three Months<br>Ended December 31, |        | 2007     | Year Ended September 30, |          |          | 2003     |
|--|------------------------------------|--------|----------|--------------------------|----------|----------|----------|
|  | 2007                               | 2006   |          | 2006                     | 2005     | 2004     |          |
| (in millions)                                      |                                    |        |          |                          |          |          |          |
| <b>Other Financial Data:</b>                       |                                    |        |          |                          |          |          |          |
| Revenue  | \$ 1,080                           | \$ 939 | \$ 4,237 | \$ 3,421                 | \$ 2,395 | \$ 2,012 | \$ 1,915 |
| Other direct costs                                 | 404                                | 436    | 1,832    | 1,521                    | 933      | 776      | 725      |
| Revenue, net of other direct costs                 | 676                                | 503    | 2,405    | 1,900                    | 1,462    | 1,236    | 1,190    |
| Cost of revenue, net of other direct costs         | 349                                | 255    | 1,244    | 994                      | 785      | 667      | 656      |
| Gross profit                                       | 327                                | 248    | 1,161    | 906                      | 677      | 569      | 534      |
| Equity in earnings of joint ventures               | 3                                  | 2      | 12       | 6                        | 2        | 3        | 2        |
| Amortization expense of acquired intangible assets | 2                                  | 1      | 12       | 15                       | 3        |          |          |
| Other general and administrative expenses          | 283                                | 219    | 1,005    | 794                      | 578      | 485      | 467      |
| General and administrative expenses                | 285                                | 220    | 1,017    | 809                      | 581      | 485      | 467      |
| Income from operations                             | \$ 45                              | \$ 30  | \$ 156   | \$ 103                   | \$ 98    | \$ 87    | \$ 69    |
| <b>Reconciliation of Cost of Revenue:</b>          |                                    |        |          |                          |          |          |          |
| Other direct costs                                 | \$ 404                             | \$ 436 | \$ 1,832 | \$ 1,521                 | \$ 933   | \$ 776   | \$ 725   |
| Cost of revenue, net of other direct costs         | 349                                | 255    | 1,244    | 994                      | 785      | 667      | 656      |
| Cost of revenue                                    | \$ 753                             | \$ 691 | \$ 3,076 | \$ 2,515                 | \$ 1,718 | \$ 1,443 | \$ 1,381 |

**Results of Operations**



*Consolidated Results*

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|  | December 31,<br>2007 | Three Months Ended<br>December 31,<br>2006 |            | Change |   |
|--|----------------------|--|------------|--------|---|
|  |                      |  |            | \$     | % |
|  |                      | (in thousands)                             |            |        |   |
| Revenue                                    | \$ 1,080,250         | \$ 938,549                                 | \$ 141,701 | 15.1%  |   |
| Other direct costs                         | 404,664              | 435,415                                    | (30,751)   | (7.1)  |   |
| Revenue, net of other direct costs         | 675,586              | 503,134                                    | 172,452    | 34.3   |   |
| Cost of revenue, net of other direct costs | 348,994              | 254,715                                    | 94,279     | 37.0   |   |
| Gross profit                               | 326,592              | 248,419                                    | 78,173     | 31.5   |   |
| Equity in earnings of joint ventures       | 2,842                | 1,417                                      | 1,425      | 100.6  |   |
| General and administrative expenses        | 284,902              | 219,828                                    | 65,074     | 29.6   |   |
| Income from operations                     | 44,532               | 30,008                                     | 14,524     | 48.4   |   |
| Minority interest in share of earnings     | 1,279                | 1,586                                      | (307)      | (19.4) |   |
| Gain on sale of equity investment          |                      | 11,286                                     | (11,286)   | n/a    |   |
| Interest income (expense), net             | 1,433                | (1,075)                                    | 2,508      | 233.3  |   |
| Income before income tax expense           | 44,686               | 38,633                                     | 6,053      | 15.7   |   |
| Income tax expense                         | 15,193               | 13,113                                     | 2,080      | 15.9   |   |
| Net income                                 | \$ 29,493            | \$ 25,520                                  | \$ 3,973   | 15.6%  |   |

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

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2007 | December 31,<br>2006 |
| Revenue, net of other direct costs         | 100.0%               | 100.0%               |
| Cost of revenue, net of other direct costs | 51.7                 | 50.6                 |
| Gross profit                               | 48.3                 | 49.4                 |
| Equity in earnings of joint ventures       | 0.4                  | 0.3                  |
| General and administrative expense         | 42.1                 | 43.7                 |
| Income from operations                     | 6.6                  | 6.0                  |
| Minority interest in share of earnings     | 0.2                  | 0.3                  |
| Gain on sale of equity investment          | 0.0                  | 2.2                  |
| Interest income (expense), net             | 0.2                  | (0.2)                |
| Income before income tax expense           | 6.6                  | 7.7                  |
| Income tax expense                         | 2.2                  | 2.6                  |
| Net income                                 | 4.4%                 | 5.1%                 |

***Revenue***

Our revenue for the three months ended December 31, 2007 increased \$141.7 million, or 15.1%, to \$1.1 billion as compared to \$938.5 million for the corresponding period last year. Of this increase, \$100.7 million, or 71.0%, was provided by companies acquired in the past twelve months. Excluding the revenue provided by acquired companies, revenue increased \$41.0 million, or 4.4%. This increase was primarily attributable to growth in our Professional Technical Services segment which experienced increased demand for services due to higher government and private sector spending for infrastructure development in Australia, Canada, the United Arab Emirates, and the United Kingdom as a result of continued economic growth in these regions, and higher volumes of work performed in our planning and urban design business. Increased demand in these markets was partially offset by a decline in our design/build services in the United States due to the completion of a significant educational facility project in the U.S. in the fourth quarter of fiscal 2007.

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

Our revenue, net of other direct costs for the three months ended December 31, 2007 increased \$172.5 million, or 34.3%, to \$675.6 million as compared to \$503.1 million in the corresponding period last year. Of this increase, \$78.7 million, or 45.6%, was provided by companies acquired in the past twelve months. Excluding the revenue, net of other direct costs provided by acquired companies, revenue, net of other direct costs increased \$93.8 million, or 18.6% due to increased staffing associated with the strong demand in the markets noted above. This larger percentage increase as compared to that of revenue results from a lower offsetting effect of the decline in demand for our design/build services which contains a proportionately higher component of subcontractor costs.

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

For the three months ended December 31, 2007, our cost of revenue, net of other direct costs increased \$94.3 million, or 37.0%, to \$349.0 million as compared to \$254.7 million in the corresponding period last year. Of this increase, \$33.3 million, or 35.4%, was incurred by companies acquired in the past twelve months. Excluding cost of revenue, net of other direct costs associated with acquired companies, cost of revenue, net of other direct costs increased \$61.0 million, or 23.9%. For the three months ended December 31, 2007, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 51.7% as compared to 50.6% in the corresponding period last year.

***Gross Profit***

Our gross profit for the three months ended December 31, 2007 increased \$78.2 million, or 31.5%, to \$326.6 million as compared to \$248.4 million in the corresponding period last year. Of this increase, gross profit provided by companies acquired in the past 12 months was \$45.4 million, or 58.1%. Excluding gross profit provided by acquired companies, gross profit increased \$32.8 million, or 13.2%. This increase was primarily attributable to the increase in revenue, net of other direct costs. For the three months ended December 31, 2007, gross profit, as a percentage of revenue, net of other direct costs, was 48.3% as compared to 49.4% in the corresponding period last year. The decrease was primarily the result of lower margins experienced in our design/build services business due to the decline in revenue noted above.

***Equity in Earnings of Joint Ventures***



Our equity in earnings of joint ventures for the three months ended December 31, 2007 increased \$1.4 million, or 100.6%, to \$2.8 million as compared to \$1.4 million in the corresponding period last year. The increase was primarily attributable to improved performance in a European joint venture that was in its initial phase in the prior year.

#### *General and Administrative Expenses*

Our general and administrative expenses for the three months ended December 31, 2007 increased \$65.1 million, or 29.6%, to \$284.9 million as compared to \$219.8 million in the corresponding period last year. Of this increase, \$35.7 million, or 54.9%, was incurred by companies acquired in the past twelve months. Excluding general and administrative expenses associated with acquired companies, general and administrative expenses increased \$29.4 million, or 13.3%. This increase was primarily attributable to the growth in revenue noted above, continued investments throughout the organization to support strategic initiatives and expenses incurred related to our becoming a public reporting company, including compliance efforts related to the requirements of the Sarbanes-Oxley Act of 2002. For the three months ended December 31, 2007, general and administrative expenses, as a percentage of revenue, net of other direct costs was 42.1% as compared to 43.7% in the corresponding period last year. The decrease in general and administrative expenses, as a percentage of revenue, net of other direct costs, reflects the benefits realized from our continuing cost efficiency initiatives.

#### *Gain on Sale of Equity Investment*

During the three months ended December 31, 2006, we sold our minority interest in an equity investment in the U.K. for 7.5 million GBP, or approximately \$14.7 million. Related to this sale, we recorded a gain on the sale of \$11.3 million.

***Interest Income (Expense) Net***

Our net interest income for the three months ended December 31, 2007 increased \$2.5 million to \$1.4 million of interest income, net, as compared to \$1.1 million of net interest expense in the corresponding period last year. This increase was primarily attributable to reduced interest expense due to repayments of borrowings and increased interest income due to investing activity, both as a result of proceeds from our initial public offering completed in May 2007.

***Income Tax Expense***

The effective tax rate for the three months ended December 31, 2007 was 34.0% as compared to 33.9% for the three months ended December 31, 2006.

***Net Income***

The factors described above resulted in net income for the three months ended December 31, 2007 of \$29.5 million, an increase of \$4.0 million, or 15.6%, as compared to \$25.5 million in the corresponding period last year.

***Results of Operations by Reportable Segment:***



*Professional Technical Services*

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|  | December 31,<br>2007 | Three Months Ended   |                      | Change |   |
|--|----------------------|----------------------|----------------------|--------|---|
|  |                      | December 31,<br>2006 | December 31,<br>2006 | \$     | % |
| (in thousands)                             |                      |                      |                      |        |   |
| Revenue                                    | \$ 893,441           | \$ 753,869           | \$ 139,572           | 18.5%  |   |
| Other direct costs                         | 244,916              | 270,822              | (25,906)             | (9.6)  |   |
| Revenue, net of other direct costs         | 648,525              | 483,047              | 165,478              | 34.3   |   |
| Cost of revenue, net of other direct costs | 329,237              | 242,745              | 86,492               | 35.6   |   |
| Gross profit                               | \$ 319,288           | \$ 240,302           | \$ 78,986            | 32.9%  |   |

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

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2007 | December 31,<br>2006 |
| Revenue, net of other direct costs         | 100.0%               | 100.0%               |
| Cost of revenue, net of other direct costs | 50.8                 | 50.3                 |
| Gross profit                               | 49.2%                | 49.7%                |

**Revenue**

Revenue for our PTS segment for the three months ended December 31, 2007 increased \$139.6 million, or 18.5%, to \$893.4 million as compared to \$753.9 million in the corresponding period last year. Of this increase, \$100.7 million, or 72.1%, was provided by companies acquired in the past twelve months. Excluding revenue provided by acquired companies, PTS revenue increased \$38.9 million, or 5.2%. This increase was primarily attributable to increased government and private sector spending for infrastructure development in Australia, Canada, the United Arab Emirates, and the United Kingdom as a result of continued economic growth, and higher demand for our planning and urban design services which are focused on sustainable environments. These increases were partially offset by a decline in our design/build services in the United States attributable to the completion of a major educational facility project in the fourth quarter of fiscal 2007.

**Revenue, Net of Other Direct Costs**

Revenue, net of other direct costs for our PTS segment for the three months ended December 31, 2007 increased \$165.5 million, or 34.3%, to \$648.5 million as compared to \$483.0 million in the corresponding period last year. Of this increase, \$78.7 million, or 47.6%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs provided by acquired companies, PTS revenue, net of other direct costs increased \$86.8 million, or 18.0%. This increase was primarily attributable to the revenue growth factors mentioned above, partially offset by the decline in design/build services in the United States.

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

Cost of revenue, net of other direct costs for our PTS segment for the three months ended December 31, 2007 increased \$86.5 million, or 35.6%, to \$329.2 million as compared to \$242.7 million in the corresponding period last year. Of this increase,



\$33.3 million, or 38.5%, was incurred by companies acquired in the past twelve months. Excluding cost of revenue, net of other direct costs associated with acquired companies, cost of revenue, net of other direct costs increased by \$53.2 million, or 21.9%. For the three months ended December 31, 2007, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 50.8% as compared to 50.3% in the corresponding period last year.

#### ***Gross Profit***

Gross profit for our PTS segment for the three months ended December 31, 2007 increased \$79.0 million, or 32.9%, to \$319.3 million as compared to \$240.3 million in the corresponding period last year. Of this increase, \$45.4 million, or 57.5%, was provided by companies acquired in the past 12 months. Excluding gross profit provided by acquired companies, gross profit increased \$33.6 million, or 14.0%. This increase was primarily attributable to the increase in revenue, net of other direct costs. For the three months ended December 31, 2007, gross profit, as a percentage of revenue, net of other direct costs, was 49.2% as compared to 49.7% in the corresponding period last year. The decrease is primarily attributable to lower margins in our design/build services in the United States resulting from the decline in revenue noted above.

#### ***Equity in Earnings of Joint Ventures***

Equity in earnings of joint ventures for our PTS segment for the three months ended December 31, 2007 increased \$1.8 million to \$1.0 million as compared to losses of \$0.8 million in the corresponding period last year. The increase is primarily attributable to improved performance of a European joint venture for which we serve as a minority partner that is focused on public/private partnership projects.

#### **Management Support Services**

|  | December 31,<br>2007 | Three Months Ended<br>December 31,<br>2006 |                | Change  |   |
|--|----------------------|--|----------------|---------|---|
|  |                      |  | (in thousands) | \$      | % |
| Revenue                                    | \$ 186,809           | \$ 184,680                                 | \$ 2,129       | 1.2%    |   |
| Other direct costs                         | 159,748              | 164,593                                    | (4,845)        | (2.9)   |   |
| Revenue, net of other direct costs         | 27,061               | 20,087                                     | 6,974          | 34.7    |   |
| Cost of revenue, net of other direct costs | 19,757               | 11,970                                     | 7,787          | 65.1    |   |
| Gross profit                               | \$ 7,304             | \$ 8,117                                   | \$ (813)       | (10.0)% |   |

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

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2007 | December 31,<br>2006 |
| Revenue, net of other direct costs         | 100.0%               | 100.0%               |
| Cost of revenue, net of other direct costs | 73.0                 | 59.6                 |
| Gross profit                               | 27.0%                | 40.4%                |

### *Revenue*

Revenue for our MSS segment for the three months ended December 31, 2007, increased \$2.1 million, or 1.2%, to \$186.8 million as compared to \$184.7 million in the corresponding period last year.

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

Revenue, net of other direct costs for our MSS segment for the three months ended December 31, 2007 increased \$7.0 million, or 34.7%, to \$27.1 million as compared to \$20.1 million in the corresponding period last year. The increase was primarily attributable to an increase in personnel and task orders received related to U.S. government activities in the Middle East.

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

Cost of revenue, net of other direct costs for our MSS segment for the three months ended December 31, 2007, increased \$7.8 million, or 65.1%, to \$19.8 million as compared to \$12.0 million in the corresponding period last year. For the three months ended December 31, 2007, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 73.0% as compared to 59.6% in the corresponding period last year.



### ***Gross Profit***

Gross profit for our MSS segment for the three months ended December 31, 2007, decreased \$0.8 million, or 10.0%, to \$7.3 million as compared to \$8.1 million in the corresponding period last year. The decrease was primarily due to lower award fees on task orders related to U.S government activities in the Middle East. For the three months ended December 31, 2007, gross profit, as a percentage of revenue, net of other direct costs, was 27.0% as compared to 40.4% in the corresponding period last year.

### ***Equity in Earnings of Joint Ventures***

Equity in earnings of joint ventures for our MSS segment for the three months ended December 31, 2007 decreased \$0.4 million, or 17.8%, to \$1.8 million as compared to \$2.2 million in the corresponding period last year. The decrease was primarily due to reduced activities in two joint ventures that provide training support services for international civilian police officers and peacekeepers, and operations and maintenance services at a military facility in the United States.

### ***Seasonality***

We experience seasonal trends in our business. Our revenue is typically lower in the first quarter of our fiscal year, primarily due to lower utilization rates attributable to holidays recognized around the world. Our revenue is typically higher in the last half of the 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 its 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***

In May 2007, we completed the initial public offering of 40.4 million shares of our common stock, which included the exercise of the underwriters' over-allotment option to purchase 5.3 million shares, at \$20.00 per share. Of the total shares sold in the offering, 15.3 million were sold by stockholders of the Company. Proceeds to the Company, net of underwriting discounts, commissions, and other offering related costs were approximately \$468.3 million, of which \$75.4 million was used to fund employees' elections to diversify their holdings in the Company's stock purchase plan.

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Our principal source of liquidity is cash flows from operations, and our principal uses of cash are for operating expenses, capital expenditures, working capital requirements, acquisitions, and repayment of debt. We anticipate that our operating cash flows, existing cash, cash equivalents and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

At December 31, 2007, cash and cash equivalents were \$327.1 million, a decrease of \$87.4 million, or 21.1%, from \$414.5 at September 30, 2007, as a result of operating, investing and financing activities, as described below.

Net cash used in operating activities was \$35.7 million for the three months ended December 31, 2007, a decrease of \$79.4 million from the net cash provided by operating activities of \$43.7 million for the three months ended December 31, 2006. The decrease was primarily attributable to a reduced rate of collections of accounts receivable, as evidenced by increased days sales outstanding.

Net cash used in investing activities was \$55.6 million for the three months ended December 31, 2007, an increase of \$51.0 million from the net cash used in investing activities of \$4.6 million in the three months ended December 31, 2006. As a result of various acquisitions, including Economics Research Associates and Gartner Lee Limited, net cash used in business combinations was \$44.7 million as compared to \$6.2 million for the comparable period last year.

Net cash provided by financing activities was \$4.1 million for the three months ended December 31, 2007, an increase of \$33.9 million from cash used in financing activities of \$29.8 million in the comparable period last year, primarily a result of reduced payments to repurchase Company stock partially offset by reduced proceeds from issuance of Company stock.

### ***Working Capital***

Working capital, or current assets less current liabilities, increased \$24.7 million, or 4.1%, to \$622.4 million at December 31, 2007 from \$597.7 million at September 30, 2007, primarily as a result of increased net accounts receivable and a

reclassification of income taxes payable to other long-term liabilities resulting from the adoption of FIN48, offset by cash used in business combinations. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, increased \$52.9 million, or 5.9%, to \$952.2 million at December 31, 2007 from \$899.3 million at September 30, 2007. For the same period, annualized revenue increased by approximately \$84 million, or 2.0%, from \$4.2 billion to \$4.3 billion.

Because our revenue depends to a great extent on billable labor hours, most of our charges are invoiced following the end of the month in which the hours were worked, the majority usually within 15 days. Other direct costs are normally billed along with labor hours. However, as opposed to salary costs, which are generally paid on either a bi-weekly or monthly basis, other direct costs are generally not paid until we receive payment (in some cases in the form of advances) from our customers.

*Borrowings and Lines of Credit*



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At December 31, 2007 and September 30, 2007, our long-term debt consisted of the following:

|   | December 31,<br>2007 |    | September 30,<br>2007 |
|---|----------------------|----|-----------------------|
| (in thousands of dollars)               |                      |    |                       |
| Senior Notes                            | \$ 8,333             | \$ | 8,333                 |
| Term credit agreement                   | 35,511               |    | 37,015                |
| Other debt                              | 4,088                |    | 2,602                 |
| Total long-term debt                    | 47,932               |    | 47,950                |
| Less: Current portion of long-term debt | (17,763)             |    | (8,764)               |
| Long-term debt, less current portion    | \$ 30,169            | \$ | 39,186                |

*Amended and Restated Credit Agreement*



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We have an unsecured credit agreement with a syndicate of banks to support our working capital and acquisition needs. In August 2007, we amended and restated this agreement, primarily to increase the size of the facility. The amended and restated credit agreement (ARCA) increased the available borrowing capacity under our unsecured revolving credit facility to \$600 million from \$300 million, and extended the expiration date to August 31, 2012. We may also, at our option, increase the commitments under the facility up to a total of \$750 million. The ARCA contains customary representations and warranties, affirmative and negative covenants and events of default, which include a sub-limit for financial and commercial standby letters of credit of \$100 million. We may borrow, at our option, at either (a) a base rate (the greater of the federal funds rate plus 0.50% or the bank's reference rate), or (b) an offshore, or LIBOR, rate plus a margin which ranges from 0.50% to 1.375%. In addition to these borrowing rates, there is a commitment fee which ranges from 0.10% to 0.25% on any unused commitment. Borrowings under the ARCA are limited by certain financial covenants. At December 31, 2007 and September 30, 2007, there were no borrowings under the ARCA. At December 31, 2007 and September 30, 2007, outstanding standby letters of credit totaled \$24.4 million and \$24.3 million, respectively, under the ARCA. At December 31, 2007, we had \$575.6 million available for borrowing under the ARCA.

### *Senior Notes*





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*October 2008 Notes:* On September 9, 2002, we issued \$25.0 million of 6.23% senior notes due October 15, 2008. The October 2008 Notes are unsecured and have an average life of five years. The annual principal payments of \$8.3 million were scheduled to begin October 15, 2006; however, we elected to pre-pay the first principal payment in September 2006. Except for \$8.3 million, the remaining principal balances of these notes were repaid in the quarter ended June 30, 2007.

### *Term Credit Agreement*



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On September 22, 2006, through certain of our wholly-owned subsidiaries, we closed an unsecured term credit agreement with a syndicate of banks to facilitate dividend repatriations under section 965 of the American Jobs Creation Act, which provided for a limited time opportunity to repatriate foreign earnings to the U.S. at a 5.25% tax rate. The term credit agreement provides for a \$65.0 million, five-year term loan among four subsidiary borrowers and one subsidiary guarantor. In order to obtain favorable pricing, we also provided a parent-company guarantee. The terms and conditions of the term credit agreement are similar to those contained in the ARCA. At December 31, 2007 and September 30, 2007, outstanding borrowings under this agreement were \$35.5 and \$37.0 million, respectively.

*Other Debt*



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At December 31, 2007, we had ten non-U.S. unsecured credit facilities used to cover periodic overdrafts and to issue letters of credit in the aggregate amount of \$97 million.

We also issued promissory notes to certain former shareholders of acquired companies. The promissory notes of \$0.6 million due to the former shareholders carry fixed and LIBOR-indexed interest rates. These promissory notes have maturities ranging from January 2006 to April 2010.

*Commitments and Contingencies*





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Planned capital expenditures include payments for recently announced acquisitions, property and equipment additions and replacements, expenditures to further the implementation of our ERP system and commitments under our incentive compensation programs. As we embark on additional capital-intensive initiatives, additional working capital may be required.

As of December 31, 2007, there was approximately \$58.2 million outstanding under standby letters of credit issued, primarily in connection with general and professional liability insurance programs and for contract performance guarantees. In addition, in some instances we guarantee that a project, when complete, will achieve specified performance standards. 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 adopted certain provisions of SFAS 158 as of September 30, 2007, and as such, were required to recognize 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. We currently expect to contribute \$15.2 million to our non-U.S. plans in 2008. We do not have a required minimum contribution for our domestic plans; however, we may make additional discretionary contributions. We currently expect to contribute \$3.7 million to our domestic plans in the year ending 2008. In the future, such pension under-funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors.

### Recently Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal year ending September 30, 2009. We are currently evaluating the impact of the provisions of SFAS 159 on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The provisions of SFAS 157 will be effective for us in our fiscal year beginning October 1, 2008. We are currently evaluating the impact of the provisions of SFAS 157 on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R significantly changes the way companies account for business combinations and will generally require more assets acquired and liabilities assumed to be measured at their acquisition-date fair value. Under SFAS 141R, legal fees and other transaction-related costs are expensed as incurred and are no longer included in goodwill as a cost of acquiring the business. SFAS 141R also requires, among other things, acquirers to estimate the acquisition-date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. In addition, restructuring costs the acquirer expected, but was not obligated to incur, will be recognized separately from the business acquisition. This accounting standard is effective for our year ending September 30, 2010. We are currently evaluating the impact of SFAS 141R on our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires all entities to report noncontrolling interests in subsidiaries as a separate component of equity in the consolidated financial statements. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. Companies will no longer recognize a gain or loss on partial disposals of a subsidiary where control is retained. In addition, in partial acquisitions, where control is obtained, the acquiring company will recognize and measure at fair value 100 percent of the assets and liabilities, including goodwill, as if the entire target company had been acquired. SFAS 160 is effective for our

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year ending September 30, 2010. We are currently evaluating the impact of SFAS 160 on our financial statements.

### Recent Developments

The Company announced on February 12, 2008 that it had entered into an agreement to purchase Earth Tech, Inc., an engineering services unit of Tyco International, for approximately \$510 million cash. The transaction is described in more detail in a current report on Form 8-K filed by the Company on February 12, 2008. In addition, the Company also announced in February 2008 that it had entered into agreements to acquire Boyle Engineering Corporation, a Newport Beach, California based engineering services firm and Tecsuit Inc., a Montreal, Canada based engineering services firm.

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

#### Financial Market Risks

We are exposed to market risk, primarily related to foreign currency exchange rates and interest rate exposure of our debt obligations that bear interest based on floating rates. We actively monitor these exposures. To reduce our exposure to market

risk, we have entered into derivative financial instruments such as forward contracts and interest rate hedge contracts. 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. 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. We currently have no material derivative instruments outstanding.

#### **Foreign Currency Exchange Rate Risk**

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the United States. We do not comprehensively hedge our exposure to currency rate changes; however, we limit exposure to foreign currency fluctuations in most of our contracts through provisions that 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 all significant foreign operations is the local currency.

#### **Interest Rate Risk**

Our senior revolving credit facility and certain other debt obligations are subject to variable rate interest. The Company's operating results and financial condition could be adversely affected by an increase in these interest rates. As of December 31, 2007 and September 30, 2007, we had \$35.5 and \$37.0 million, respectively, outstanding in borrowings under our term credit agreement and no amounts outstanding under our credit facility. Interest on amounts borrowed under the credit facility is subject to adjustment based on certain levels of financial performance. For borrowings at offshore rates, the applicable margin added can range from 0.50% to 1.38%. For fiscal 2007, our weighted average borrowings on our senior credit facility were \$75.6 million. If short-term floating interest rates were to increase or decrease by 1%, our annual interest expense could have increased or decreased by \$0.8 million. We invest our cash in money market securities or other high quality, short-term securities that are subject to minimal credit and market risk.

#### **Item 4T. Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of 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), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 by our fiscal year ending September 30, 2008. The notification of such compliance is due no later than the time we file our annual report for the fiscal year ending September 30, 2008. We believe we will have adequate resources and expertise, both internal and external, in place to meet this requirement. However, there is no guarantee that our efforts will result in management's ability to conclude, or our independent registered public accounting firm to attest, that our internal control over financial reporting is effective as of September 30, 2008.





**PART II. OTHER INFORMATION**





## Item 1. Legal Proceedings

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

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

### Item 1A. Risk Factors

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

A substantial majority of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal 2007, 2006 and 2005, approximately 61%, 63% and 75%, 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.

***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 convenience or upon the default of the contractor. If the government terminates a contract at its convenience, 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. If the government terminates the contract due to our default, we could be liable for excess costs incurred by the government in obtaining services from another source.

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

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

*Our 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. 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 harm our business.

***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 2007, approximately 37% of our revenue was recognized under fixed-price contracts. Fixed-price contracts are the predominant method of contracting outside of the United States and our exposure to fixed-price contracts will likely increase as we increase the non-U.S. portions of our business. 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 harm our results of operations.

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

Approximately 27% of our fiscal 2007 revenue was derived from our operations through joint ventures or similar partner 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 harm 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. Approximately 12% of our fiscal 2007 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 the 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 by our employees or consultants failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with federal procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, and other applicable laws or regulations. Our failure to comply with applicable laws or regulations, misconduct by any of our employees or consultants or our failure to make timely and accurate certifications to government agencies regarding misconduct or potential misconduct could subject us to fines and penalties, loss of security clearance, cancellation of contracts and suspension or debarment from contracting with government agencies, any of which may adversely affect our business.

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

We have defined benefit pension plans for employees in the United States, United Kingdom and Australia. At December 31, 2007, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of \$68 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. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our profits could be materially and adversely affected.

*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 2007, revenue attributable to our services provided outside of the United States was approximately 51% 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;
- 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 the U.S. Foreign Corrupt Practice Act and similar non-U.S. laws and regulations; and
- currency exchange rate fluctuations, devaluations and other conversion restrictions.

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

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

Some of our services are performed in high-risk locations, such as Iraq and Afghanistan, where the country or location is suffering from political, social or economic problems, or war or civil unrest. In those locations where we have employees or operations, we may incur material costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk, and we may suffer the loss of key employees and contractors, which could harm our business.

***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. 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 goodwill impairment charges.

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

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

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

Additionally, in the past, we have promoted our employee ownership culture as a competitive advantage in recruiting and retaining employees. Although we intend to retain the essential elements of an employee ownership culture and do not intend to change our core values and operating philosophy, if our employees or recruits perceive that our change in May 2007 to a publicly-traded company has negatively impacted our company culture, our ability to recruit and retain employees may be adversely impacted.

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

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

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

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

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

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

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

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

At December 31, 2007, our backlog of uncompleted projects under contract was approximately \$3.1 billion and our selected-not-booked backlog was approximately \$3.7 billion for a total backlog of \$6.8 billion. Our backlog includes revenue we expect to record in the future from signed

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contracts, and in the case of a public client, where the project has been funded. Our selected-not-booked 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 completed. 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 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.

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.

*Our quarterly operating results may fluctuate significantly.*

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

- the spending cycle of our public sector clients;
- employee hiring and utilization rates;
- the number and significance of client engagements commenced and completed during a quarter;
- the ability of clients to terminate engagements without penalties;
- the ability of our project managers to accurately estimate the percentage of the project completed;
- delays incurred as a result of weather conditions;
- delays incurred in connection with an engagement;
- the size and scope of engagements;

- the timing of expenses incurred for corporate initiatives;
- 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.

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

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

*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.

*We do not expect to pay any cash dividends for the foreseeable future.*

We do not anticipate paying any cash dividends to our stockholders for the foreseeable future. Our credit facilities also restrict our ability to pay dividends. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell our common stock and may lose some or all of the amount of your investment. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant.

*We will incur increased costs as a result of being a publicly-traded company.*

We completed the initial public offering of our common stock in May of 2007 and such shares are now traded on the New York Stock Exchange (NYSE). As a company with publicly-traded securities, we have incurred and will continue to incur significant legal, accounting and other expenses not incurred as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules promulgated by the SEC and the NYSE, requires us to adopt corporate governance practices applicable to U.S. public companies. These rules and regulations have increased and will continue to increase our legal and financial compliance costs.

*If we do not timely satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the trading price of our common stock could be adversely affected.*

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal controls over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal controls. It also requires our independent registered public accounting firm to test our internal controls over financial reporting and report on the effectiveness of such controls as of September 30, 2008. Any delays or difficulty in satisfying these requirements could cause some investors to lose confidence in, or otherwise be unable to rely on, the accuracy of our reported financial information, which could adversely affect the trading

price of our common stock.

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

During the three month period ended December 31, 2007, we issued the following securities that were not registered under the Securities Act of 1933, as amended (the Securities Act ):

- i. 1.59 shares of our Class C preferred stock to U.S. Trust for the benefit of our employee stockholders under our Stock Purchase Plan;
- ii. 1.02 of our Class E shares which provide certain voting rights for holders of the exchangeable shares referenced in paragraph (iii) below; and
- iii. 174,329 shares of our common stock and shares exchangeable into our common stock on a 1-to-1 basis to the shareholders of privately-held companies in connection with our acquisition of the companies.

We issued the securities identified in paragraph (i) above to our directors, officers, employees and consultants under written compensatory benefit plans in reliance upon Rule 701 under the Securities Act and/or Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering. We issued the securities identified in paragraphs (ii) and (iii) above in reliance upon Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering or Regulation S promulgated under the Securities Act as sales occurring outside of the United States.

**Item 6. Exhibits**

The following documents are filed as Exhibits to the Report:

| <b>Exhibit<br/>Numbers</b> | <b>Description</b>   |
|----------------------------|--|
| 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 |

**SIGNATURES**

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

AECOM TECHNOLOGY CORPORATION

Date: February 13, 2008

By:

/s/ MICHAEL S. BURKE

Michael S. Burke

*Executive Vice President, Chief Financial Officer and  
Chief Corporate Officer*

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