

AECOM TECHNOLOGY CORP
Form 10-Q
February 05, 2014
[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 0-52423

AECOM TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

As of January 24, 2014, 99,062,136 shares of the registrant's common stock were outstanding.

Table of Contents

AECOM TECHNOLOGY CORPORATION

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	1
<u>Item 1.</u>	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of December 31, 2013 (unaudited) and September 30, 2013</u>	1
	<u>Consolidated Statements of Income for the Three Months Ended December 31, 2013 (unaudited) and December 31, 2012 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income for the Three Months Ended December 31, 2013 (unaudited) and December 31, 2012 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2013 (unaudited) and December 31, 2012 (unaudited)</u>	4
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4.</u>	<u>Controls and Procedures</u>	31
<u>PART II.</u>	<u>OTHER INFORMATION</u>	31
<u>Item 1.</u>	<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	<u>Risk Factors</u>	32
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	40
<u>Item 6.</u>	<u>Exhibits</u>	41
<u>SIGNATURES</u>		42

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

	December 31, 2013 (Unaudited)	September 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 510,696	\$ 450,328
Cash in consolidated joint ventures	171,047	150,349
Total cash and cash equivalents	681,743	600,677
Accounts receivable net	2,410,041	2,342,262
Prepaid expenses and other current assets	126,907	168,714
Income taxes receivable	10,207	
Deferred tax assets net	19,949	19,949
TOTAL CURRENT ASSETS	3,248,847	3,131,602
PROPERTY AND EQUIPMENT NET	275,897	270,672
DEFERRED TAX ASSETS NET	111,084	143,478
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	53,469	80,045
GOODWILL	1,884,760	1,811,754
INTANGIBLE ASSETS NET	98,353	83,149
OTHER NON-CURRENT ASSETS	165,011	144,923
TOTAL ASSETS	\$ 5,837,421	\$ 5,665,623
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$ 33,518	\$ 29,578
Accounts payable	803,843	725,389
Accrued expenses and other current liabilities	904,463	915,282
Income taxes payable		6,127
Billings in excess of costs on uncompleted contracts	360,731	322,486
Current portion of long-term debt	57,115	54,687
TOTAL CURRENT LIABILITIES	2,159,670	2,053,549
OTHER LONG-TERM LIABILITIES	441,340	448,920
LONG-TERM DEBT	1,113,452	1,089,060
TOTAL LIABILITIES	3,714,462	3,591,529
COMMITMENTS AND CONTINGENCIES (Note 16)		
AECOM STOCKHOLDERS EQUITY:		
Preferred stock, Class E authorized, 20 shares; issued and outstanding, 2 shares as of December 31 and September 30, 2013; no par value, \$1.00 liquidation preference value		

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Common stock authorized, 300,000,000 shares of \$0.01 par value as of December 31 and September 30, 2013; issued and outstanding 95,781,448 and 96,016,358 shares as of December 31 and September 30, 2013, respectively

	958	960
Additional paid-in capital	1,818,821	1,809,627
Accumulated other comprehensive loss	(287,237)	(261,299)
Retained earnings	503,724	472,155
TOTAL AECOM STOCKHOLDERS EQUITY	2,036,266	2,021,443
Noncontrolling interests	86,693	52,651
TOTAL STOCKHOLDERS EQUITY	2,122,959	2,074,094
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 5,837,421	\$ 5,665,623

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
Revenue	\$ 1,953,875	\$ 2,017,272
Cost of revenue	1,875,677	1,939,154
Gross profit	78,198	78,118
Equity in earnings of joint ventures	36,083	5,915
General and administrative expenses	(23,845)	(22,102)
Income from operations	90,436	61,931
Other income	17	671
Interest expense, net	(10,427)	(10,921)
Income before income tax expense	80,026	51,681
Income tax expense	23,485	12,703
Net income	56,541	38,978
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(145)	(869)
Net income attributable to AECOM	\$ 56,396	\$ 38,109
Net income attributable to AECOM per share:		
Basic	\$ 0.59	\$ 0.36
Diluted	\$ 0.58	\$ 0.36
Weighted average shares outstanding:		
Basic	96,302	104,759
Diluted	97,590	105,538

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
Net income	\$ 56,541	\$ 38,978
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on derivatives:		
Unrealized holding loss on derivatives	(176)	(11)
Reclassification adjustments for losses included in net income	492	438
Net unrealized gain on derivatives, net of tax	316	427
Foreign currency translation adjustments	(25,812)	(5,978)
Pension adjustments, net of tax	(962)	2,103
Other comprehensive loss, net of tax	(26,458)	(3,448)
Comprehensive income, net of tax	30,083	35,530
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax	375	(869)
Comprehensive income attributable to AECOM, net of tax	\$ 30,458	34,661

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 56,541	\$ 38,978
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	22,198	23,902
Equity in earnings of unconsolidated joint ventures	(36,083)	(5,915)
Distribution of earnings from unconsolidated joint ventures	9,170	11,332
Non-cash stock compensation	10,941	6,834
Excess tax benefit from share-based payment	(448)	(685)
Foreign currency translation	(9,466)	(1,452)
Other	1,185	837
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	1,709	(48,392)
Prepaid expenses and other assets	19,733	(19,415)
Accounts payable	72,436	(73,427)
Accrued expenses and other current liabilities	(16,873)	75,084
Billings in excess of costs on uncompleted contracts	21,241	69,018
Other long-term liabilities	(8,226)	(9,610)
Income taxes payable	(6,671)	
Net cash provided by operating activities	137,387	67,089
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for business acquisitions, net of cash acquired	(659)	(41,713)
Cash acquired from consolidation of joint venture	18,955	
Net investment in unconsolidated joint ventures	(519)	
(Purchases) sales of investments	(17,555)	2,470
Payments for capital expenditures	(20,771)	(12,925)
Net cash used in investing activities	(20,549)	(52,168)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	504,397	590,547
Repayments of borrowings under credit agreements	(488,463)	(428,877)
Proceeds from issuance of common stock	1,803	1,840
Proceeds from exercise of stock options	1,637	2,851
Payments to repurchase common stock under the Repurchase Program	(28,141)	(167,055)
Payments for other repurchases of common stock	(5,580)	(7,875)
Excess tax benefit from share-based payment	448	685
Net distributions to noncontrolling interests	(19,368)	(9,002)
Net cash used in financing activities	(33,267)	(16,886)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,505)	(515)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	81,066	(2,480)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	600,677	593,776
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 681,743	\$ 591,296
NON-CASH INVESTING AND FINANCING ACTIVITY		
Common stock issued in acquisitions	\$	\$ 14,322

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM Technology Corporation

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

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

The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2013. The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Certain immaterial reclassifications were made to the prior year to conform to current year presentation.

The results of operations for the three months ended December 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2014.

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

2. New Accounting Pronouncements and Changes in Accounting

In February 2013, the Financial Accounting Standards Board (FASB) issued new accounting guidance to update the presentation of reclassifications from comprehensive income to net income in consolidated financial statements. Under this new guidance, an entity is required to present information about the amounts reclassified out of accumulated other comprehensive income either by the respective line items of net income or by cross-reference to other required disclosures. The new guidance does not change the requirements for reporting net income or other comprehensive income in financial statements. This guidance was effective for the Company's fiscal year beginning October 1, 2013 and did not have a material impact on the Company's consolidated financial statements.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

In February 2013, the FASB issued new accounting guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation (within the scope of this guidance) is fixed at the reporting date. Examples of obligations within the scope of this guidance include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. This new guidance is effective for annual reporting periods beginning after December 15, 2013 and subsequent interim periods. This guidance is effective for the Company's fiscal year beginning October 1, 2014 and it is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued new accounting guidance that requires the presentation of unrecognized tax benefits as a reduction of the deferred tax assets, when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. This guidance is effective for the Company's fiscal year beginning October 1, 2014 and it is not expected to have a material impact on the Company's consolidated financial statements.

3. Stock Repurchase Program

In August 2011, the Company's Board of Directors initially authorized a stock repurchase program (the Repurchase Program), pursuant to which the Company could purchase its common stock, which was subsequently increased. The dollar value capacity of the Repurchase Program was authorized as follows:

Authorization Date	Increase in the Dollar Value Capacity	Maximum Dollar Value Capacity at the Authorization Date
	(amounts in millions)	
August 2011	\$ 200.0	\$ 200.0
August 2012	\$ 300.0	\$ 500.0
January 2013	\$ 500.0	\$ 1,000.0

Table of Contents

Share repurchases under the Repurchase Program can be made through open market purchases, unsolicited or solicited privately negotiated transactions or other methods, including pursuant to a Rule 10b5-1 plan. Under the Repurchase Program, which includes purchases made through an accelerated share repurchase (ASR) agreement, Rule 10b5-1 repurchase plans and the open market, the Company has purchased a total of 27.4 million shares at an average price of \$24.10 per share, for a total cost of \$660.1 million. As of December 31, 2013, \$339.9 million was available for the repurchase of the Company's common stock pursuant to the Repurchase Program. Repurchased shares are returned to treasury status, but remain authorized for registration and issuance in the future.

Accelerated Share Repurchase

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

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

Rule 10b5-1 Repurchase Plan and Open Market Purchases

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

From the inception of the Repurchase Program through December 31, 2013, the Company had repurchased through open market purchases and purchases made under Rule 10b5-1 plans, a total of 22.6 million shares at an average price of \$24.75 per share, for a total cost of \$560.1 million. No shares were repurchased in transactions that were settled in the second quarter of fiscal 2014.

4. Business Acquisitions, Goodwill and Intangible Assets

The Company obtained control of an unconsolidated joint venture that resulted in its consolidation during the three months ended December 31, 2013, as further discussed in Note 6. No other business acquisitions occurred during the quarter ended December 31, 2013.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

At the time of acquisition, the Company preliminarily estimates the amount of the identifiable intangible assets acquired based upon historical valuations of similar acquisitions and the facts and circumstances available at the time. The Company determines the final value of the identifiable intangible assets as soon as information is available, but not more than 12 months from the date of acquisition. Post-acquisition adjustments primarily relate to project related liabilities.

The changes in the carrying value of goodwill by reportable segment for the three months ended December 31, 2013 and 2012 were as follows:

	September 30, 2013	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Acquired	December 31, 2013
Professional Technical Services	\$ 1,645.0	\$ 5.0	\$ (10.2)	\$ 78.2	\$ 1,718.0
Management Support Services	166.8				166.8
Total	\$ 1,811.8	\$ 5.0	\$ (10.2)	\$ 78.2	\$ 1,884.8

	September 30, 2012	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Acquired	December 31, 2012
Professional Technical Services	\$ 1,608.6	\$	\$ (2.9)	\$ 44.5	\$ 1,650.2
Management Support Services	166.8				166.8
Total	\$ 1,775.4	\$	\$ (2.9)	\$ 44.5	\$ 1,817.0

Table of Contents

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 31, 2013 and September 30, 2013, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	Gross Amount	December 31, 2013		Intangible Assets, Net (in millions)	September 30, 2013		Intangible Assets, Net	Amortization Period (years)
		Accumulated Amortization			Gross Amount	Accumulated Amortization		
Backlog	\$ 104.4	\$ (90.7)	\$ 13.7	\$ 94.9	\$ (89.4)	\$ 5.5	1.5	
Customer relationships	158.0	(73.3)	84.7	147.1	(69.5)	77.6	10	
Trademark / tradename	7.8	(7.8)		7.8	(7.8)		2	
Total	\$ 270.2	\$ (171.8)	\$ 98.4	\$ 249.8	\$ (166.7)	\$ 83.1		

Amortization expense of acquired intangible assets included within cost of revenue was \$5.1 million and \$5.3 million for the three months ended December 31, 2013 and 2012, respectively. The following table presents estimated amortization expense of intangible assets for the remainder of fiscal 2014 and for the succeeding years:

Fiscal Year	(in millions)
2014 (nine months remaining)	\$ 18.0
2015	21.6
2016	15.4
2017	12.9
2018	9.6
Thereafter	20.9
Total	\$ 98.4

5. Accounts Receivable Net

Net accounts receivable consisted of the following as of December 31, 2013 and September 30, 2013:

	December 31, 2013		September 30, 2013	
	(in millions)			
Billed	\$ 1,140.5	\$ 1,177.6		
Unbilled	1,160.7	1,076.8		
Contract retentions	183.9	174.3		
Total accounts receivable gross	2,485.1	2,428.7		
Allowance for doubtful accounts	(75.1)	(86.4)		
Total accounts receivable net	\$ 2,410.0	\$ 2,342.3		

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent contract revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 31, 2013 and September 30, 2013 are expected to be billed and collected within twelve months. Contract retentions represent

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, or other contractual conditions or upon the completion of a project. These retention agreements vary from project to project and could be outstanding for several months or years.

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

Other than the U.S. government, no single client accounted for more than 10% of the Company's outstanding receivables at December 31, 2013 or September 30, 2013.

The Company has sold trade receivables to financial institutions, of which \$108.9 million was outstanding as of December 31, 2013. The Company does not retain financial or legal obligations for these receivables that would result in material losses. The Company's ongoing involvement is limited to the remittance of customer payments to the financial institutions with respect to the sold trade receivables.

Table of Contents

6. Joint Ventures and Variable Interest Entities

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

Some of the Company's joint ventures have no employees and minimal operating expenses. For these joint ventures, the Company's employees perform work for the joint venture, which is then billed to a third-party customer by the joint venture. These joint ventures function as pass through entities to bill the third-party customer. For consolidated entities, the Company records the entire amount of the services performed and the costs associated with these services, including the services provided by the other joint venture partners, in the Company's results of operations. For certain of these joint ventures where a fee is added by an unconsolidated joint venture to client billings, the Company's portion of that fee is recorded in equity in earnings of joint ventures.

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

The Company follows guidance issued by the FASB on the consolidation of variable interest entities (VIEs) that requires companies to utilize a qualitative approach to determine whether it is the primary beneficiary of a VIE. The process for identifying the primary beneficiary of a VIE requires consideration of the factors that indicate a party has the power to direct the activities that most significantly impact the joint venture's economic performance, including powers granted to the joint venture's program manager, powers contained in the joint venture governing board and, to a certain extent, a company's economic interest in the joint venture. The Company analyzes its joint ventures and classifies them as either:

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

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

The Company has not provided financial or other support during the periods presented to any of its VIEs that it was not previously contractually required to provide. Contractually required support provided to the Company's joint ventures is further discussed in Note 16.

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

	December 31, 2013	(in millions)	September 30, 2013	
Current assets	\$	233.8	\$	185.7
Non-current assets		102.4		
Total assets	\$	336.2	\$	185.7
Current liabilities	\$	87.8	\$	38.9
Non-current liabilities				
Total liabilities		87.8		38.9
Total AECOM equity		174.0		106.8
Noncontrolling interests		74.4		40.0
Total owners' equity		248.4		146.8
Total liabilities and owners' equity	\$	336.2	\$	185.7

Table of Contents

Total revenue of the consolidated joint ventures was \$95.8 million and \$130.7 million for the three months ended December 31, 2013 and 2012, respectively. The assets of the Company's consolidated joint ventures are restricted for use only by the particular joint venture and are not available for the general operations of the Company.

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

	December 31, 2013		September 30, 2013
	(in millions)		
Current assets	\$ 446.6	\$	523.1
Non-current assets	20.7		47.7
Total assets	\$ 467.3	\$	570.8
Current liabilities	\$ 361.5	\$	382.2
Non-current liabilities	2.6		17.3
Total liabilities	364.1		399.5
Joint ventures' equity	103.2		171.3
Total liabilities and joint ventures' equity	\$ 467.3	\$	570.8
AECOM's investment in joint ventures	\$ 53.5	\$	80.0

Total revenue of the unconsolidated joint ventures was \$518.4 million and \$527.5 million for the three months ended December 31, 2013 and 2012, respectively. Total operating income of the unconsolidated joint ventures was \$10.0 million and \$11.7 million for the three months ended December 31, 2013 and 2012, respectively.

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
	(in millions)	
Pass through joint ventures	\$ 0.7	\$ 1.5
Other joint ventures	35.4	4.4
Total	\$ 36.1	\$ 5.9

Included in equity in earnings above, the Company recorded a \$37.4 million gain upon change in control (\$23.4 million, net of tax) of an unconsolidated joint venture in the quarter ended December 31, 2013. The Company obtained control of the joint venture through modifications to the joint venture's operating agreement, which required the Company to consolidate the joint venture. The acquisition date fair value of the previously held equity interest was \$58.0 million, excluding control premium. The measurement of the fair value of the equity interest immediately before obtaining control of the joint venture resulted in the pre-tax gain of \$37.4 million. The Company utilized income and market approaches, in addition to obtaining an independent third party valuation, in determining the joint venture's fair value, which includes making assumptions about variables such as revenue growth rates, profitability, discount rates, and industry market multiples. These assumptions are subject to a high degree of judgment. Total assets and liabilities of this entity included in the accompanying consolidated balance sheet at December 31, 2013 were \$201.0 million and \$48.0 million, respectively, and the results of operations included in the accompanying statement of

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

operations was not significant for the current quarter. This acquisition did not meet the quantitative thresholds to require pro forma disclosures of operating results based on the Company's consolidated assets, investments and net income. This joint venture performs engineering and program management services in the Middle East and is included in the Company's PTS segment.

Table of Contents**7. Pension Benefit Obligations**

The following table details the components of net periodic cost for the Company's pension plans for the three months ended December 31, 2013 and 2012:

	Three Months Ended							
	December 31, 2013		December 31, 2012					
	U.S.	Int'l	U.S.	Int'l				
	(in millions)							
Components of net periodic (benefit) cost:								
Service costs	\$	\$	0.2	\$	\$	0.3		
Interest cost on projected benefit obligation		1.9	6.8		1.6	6.1		
Expected return on plan assets		(2.1)	(6.4)		(2.1)	(5.9)		
Amortization of net loss		1.0	1.2		1.1	1.0		
Settlement loss recognized						0.8		
Net periodic cost	\$	0.8	\$	1.8	\$	0.6	\$	2.3

The total amounts of employer contributions paid for the three months ended December 31, 2013 were \$1.1 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, 2014 are \$3.8 million for U.S. plans and \$12.1 million for non-U.S. plans. Included in other long-term liabilities are net pension liabilities of \$190.7 million and \$192.7 million as of December 31, 2013 and September 30, 2013, respectively.

8. Debt

Debt consisted of the following:

	December 31, 2013		September 30, 2013	
	(in millions)			
Unsecured term credit agreement	\$	750.0	\$	750.0
Unsecured senior notes		261.1		260.2
Unsecured revolving credit facility		138.2		114.7
Other debt		54.8		48.4
Total debt		1,204.1		1,173.3
Less: Current portion of debt and short-term borrowings		(90.6)		(84.3)
Long-term debt, less current portion	\$	1,113.5	\$	1,089.0

The following table presents, in millions, scheduled maturities of the Company's debt as of December 31, 2013:

Fiscal Year		
2014 (nine months remaining)	\$	90.6
2015		38.3
2016		176.4
2017		37.7
2018		600.0
Thereafter		261.1
Total	\$	1,204.1

Unsecured Term Credit Agreement

In June 2013, the Company entered into a Second Amended and Restated Credit Agreement (Term Credit Agreement) with Bank of America, N.A., as administrative agent and a lender, and the other lenders party thereto. Pursuant to the Term Credit Agreement, the Company borrowed \$750 million and may borrow up to an additional \$100 million subject to certain conditions, including Company and lender approval. The Company used approximately \$675 million of the proceeds from the loans to repay indebtedness under our prior term loan facility. The loans under the Term Credit Agreement bear interest, at the Company's option, at either the Base Rate (as defined in the Term Credit Agreement) plus an applicable margin or the Eurodollar Rate (as defined in the Term Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.125% to 1.250% and the applicable margin for Eurodollar Rate loans is a range of 1.125% to 2.250%, both based on the debt-to-earnings leverage ratio of the Company at the end of each fiscal quarter. For the three months ended December 31, 2013 and 2012, the average interest rate of the Company's term loan facility was 1.68% and 2.02%, respectively. Payments of the initial principal amount outstanding under the Term Credit Agreement are required on an annual basis beginning on June 30, 2014 with the final principal balance of \$600 million due on June 7, 2018. The Company may, at its option, prepay the loans at any time, without penalty.

Table of Contents

Unsecured Senior Notes

In July 2010, the Company issued \$300 million of notes to private institutional investors. The notes consisted of \$175.0 million of 5.43% Senior Notes, Series A, due July 2020 and \$125.0 million of 1.00% Senior Discount Notes, Series B, due July 2022 for net proceeds of \$249.8 million. The outstanding accreted balance of Series B Notes, which have an effective interest rate of 5.62%, was \$86.1 million and \$85.2 million at December 31, 2013 and September 30, 2013, respectively. The fair value of the Company's unsecured senior notes was approximately \$276.8 million and \$269.4 million at December 31, 2013 and September 30, 2013, respectively. The Company calculated the fair values based on model-derived valuations using market observable inputs, which are Level 2 inputs under the accounting guidance. The Company's obligations under the notes are guaranteed by certain subsidiaries of the Company pursuant to one or more subsidiary guarantees.

Unsecured Revolving Credit Facility

In July 2011, the Company entered into a Third Amended and Restated Credit Agreement (Revolving Credit Agreement) with Bank of America, N.A., as an administrative agent and a lender and the other lenders party thereto, which provides for a borrowing capacity of \$1.05 billion. In June 2013, the Company entered into a Fourth Amendment to the Revolving Credit Agreement to, among other things, conform certain provisions to the applicable provisions in the Term Credit Agreement. The Revolving Credit Agreement has an expiration date of July 20, 2016, and prior to this expiration date, principal amounts outstanding under the Revolving Credit Agreement may be repaid and reborrowed at the Company's option without prepayment or penalty, subject to certain conditions. The Company may request an increase in capacity of up to a total of \$1.15 billion, subject to certain conditions. The loans under the Revolving Credit Agreement may be borrowed in dollars or in certain foreign currencies and bear interest, at the Company's option, at either the Base Rate (as defined in the Revolving Credit Agreement) plus an applicable margin or the Eurocurrency Rate (as defined in the Revolving Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.00% to 1.50% and the applicable margin for the Eurocurrency Rate loans is a range of 1.00% to 2.50%, both based on the Company's debt-to-earnings leverage ratio at the end of each fiscal quarter. In addition to these borrowing rates, there is a commitment fee which ranges from 0.150% to 0.375% on any unused commitment. At December 31, 2013 and September 30, 2013, \$138.2 million and \$114.7 million, respectively, were outstanding under the Company's revolving credit facility. At December 31, 2013 and September 30, 2013, outstanding standby letters of credit totaled \$35.5 million under the revolving credit facility. As of December 31, 2013, the Company had \$876.3 million available under its Revolving Credit Agreement.

Covenants and Restrictions

Under the Company's debt agreements relating to its unsecured revolving credit facility, unsecured term credit agreement, and unsecured senior notes, the Company is subject to a maximum consolidated leverage ratio at the end of each fiscal quarter. This ratio is calculated by dividing consolidated funded debt (including financial letters of credit and other adjustments per the Company's debt agreements) by consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA). Subject to certain differences among the Company's debt agreements, EBITDA is defined as consolidated net income attributable to AECOM plus interest, depreciation and amortization expense, amounts set aside for taxes and other non-cash items (including a calculated annualized EBITDA from our acquisitions). As of December 31, 2013, the Company's most restrictive consolidated leverage ratio was 2.65, which did not exceed the Company's maximum consolidated leverage ratio of 3.0.

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

Additionally, the Company's unsecured senior notes contain covenants that limit (i) certain types of indebtedness, which include indebtedness incurred by subsidiaries and indebtedness secured by a lien, (ii) merging with other entities, (iii) entering into a transaction resulting in a change of control, (iv) creating new liens, (v) selling assets outside of the ordinary course of business, (vi) entering into transactions with affiliates, and (vii) substantially changing the general nature of the Company and its subsidiaries taken as a whole. The unsecured senior notes also contain a financial covenant that requires the Company to maintain a net worth above a calculated threshold. The threshold is calculated as \$1.2 billion plus 40% of the consolidated net income for each fiscal quarter commencing with the fiscal quarter ending June 30, 2010. In the calculation of this threshold, the Company cannot include a consolidated net loss that may occur in any fiscal quarter. The Company's net worth for this financial covenant is defined as total AECOM stockholders' equity, which is consolidated stockholders' equity, including any redeemable common stock and stock units and the liquidation preference of any preferred stock. As of December 31, 2013, this amount was \$2.0 billion, which exceeds the calculated threshold of \$1.6 billion.

Table of Contents

Should the Company fail to comply with these covenants, all or a portion of its borrowings under the unsecured senior notes and unsecured term credit agreements could become immediately payable and its unsecured revolving credit facility could be terminated. At December 31, 2013 and September 30, 2013, the Company was in compliance with all such covenants.

The Company's average effective interest rate on total borrowings, including the effects of the interest rate swap agreements, during the three months ended December 31, 2013 and 2012 was 2.8% and 3.0%, respectively.

Notes Secured by Real Properties

Notes secured by real properties, payable to a bank, were assumed in connection with a business acquired during the year ended September 30, 2008. These notes payable accrued interest at 6.04% per annum and were to mature in December 2028. These notes were settled in connection with the sale of the real properties during the third quarter of fiscal 2013.

Other Debt

Other debt consists primarily of bank overdrafts and obligations under capital leases and other unsecured credit facilities. In addition to the unsecured revolving credit facility discussed above, the Company also has other unsecured credit facilities primarily used for standby letters of credit issued for payment and performance guarantees. At December 31, 2013 and September 30, 2013, these outstanding standby letters of credit totaled \$258.5 million and \$236.4 million, respectively. The Company had \$13.7 million and \$0.5 million of obligations outstanding under these unsecured credit facilities as of December 31, 2013 and September 30, 2013, respectively. As of December 31, 2013, the Company had \$355.6 million available under these unsecured credit facilities.

9. Derivative Financial Instruments

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

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

Cash Flow Hedges

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

At December 31, 2013, the effective portion of the Company's interest rate swap agreements designated as cash flow hedges before tax effect was \$3.2 million, of which \$2.4 million is expected to be reclassified from accumulated other comprehensive loss to interest expense, net within the next 12 months. At December 31, 2013, the effective portion of the Company's foreign currency options designated as cash flow hedges before tax effect were immaterial.

Table of Contents

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

Notional Amount (in millions)	December 31, 2013		Expiration Date
		Fixed Rate	
\$ 250.0	0.95%	September 2015	
200.0	0.68%	December 2014	

Notional Amount (in millions)	September 30, 2013		Expiration Date
		Fixed Rate	
\$ 250.0	0.95%	September 2015	
200.0	0.68%	December 2014	
150.0	0.55%	December 2013	

The notional principal of foreign currency options to purchase British Pounds (GBP) with Brazilian Reais (BRL) was BRL 1.0 million and BRL 2.1 million (or approximately \$0.4 million and \$0.9 million) at December 31, 2013 and September 30, 2013, respectively. These foreign exchange contracts have maturities of 24 months or less.

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts, which are not designated as accounting hedges, to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. Gains and losses on these contracts are recognized in cost of sales for those instruments related to the provision of their respective services or general and administrative expenses, along with the offsetting losses and gains of the related hedged items. The notional principal of foreign currency forward contracts to purchase U.S. dollars with foreign currencies was \$230.2 million and \$171.8 million at December 31, 2013 and September 30, 2013, respectively. The notional principal of foreign currency forward contracts to sell U.S. dollars for foreign currencies was \$172.0 million and \$174.2 million at December 31, 2013 and September 30, 2013, respectively. The notional principal of foreign currency forward contracts to purchase GBP with BRL was BRL 2.5 million and BRL 4.0 million (or approximately \$1.1 million and \$1.8 million) at December 31, 2013 and September 30, 2013, respectively. The notional principal of foreign currency forward contracts to sell GBP for BRL was BRL 4.7 million and BRL 8.2 million (or approximately \$2.0 million and \$3.6 million) at December 31, 2013 and September 30, 2013, respectively.

Other Derivatives

Other derivatives that are not designated as hedging instruments consist of option contracts that the Company uses to hedge anticipated transactions in currencies other than the functional currency of a subsidiary. The Company recognizes gains and losses on these contracts as well as the offsetting losses and gains of the related hedged item costs in cost of sales. The Company records the premium paid or time value of an option on the date of purchase as an asset. Thereafter, the Company recognizes any change to this time value in cost of sales. There was no such option contract outstanding during the periods presented.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

The fair values of our outstanding derivative instruments were as follows (in millions):

	Balance Sheet Location	Fair Value of Derivative Instruments as of	
		Dec 31, 2013	Sep 30, 2013
Derivative assets			
Derivatives designated as hedging instruments:			
Foreign currency options	Prepaid expenses and other current assets	\$ 0.1	\$ 0.1
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	1.4	1.6
Total		\$ 1.5	\$ 1.7
Derivative liabilities			
Derivatives designated as hedging instruments:			
Interest rate swap agreements	Accrued expenses and other current liabilities	\$ 2.5	\$ 2.6
Interest rate swap agreements	Other long-term liabilities	0.7	1.1
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Accrued expenses and other current liabilities	2.8	1.5
Total		\$ 6.0	\$ 5.2

Table of Contents

The effect of derivative instruments in cash flow hedging relationships on income and other comprehensive income is summarized below (in millions):

		Increase in Losses Recognized in Accumulated Other Comprehensive Loss on Derivatives Before Tax Effect (Effective Portion) Three Months Ended Dec 31,	
		2013	2012
Derivatives in cash flow hedging relationship:			
Interest rate swap agreements	\$	(0.3)	\$

	Location	Losses Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) Three Months Ended Dec 31,	
		2013	2012
Derivatives in cash flow hedging relationship:			
Interest rate swap agreements	Interest expense, net	\$ (0.8)	\$ (0.7)

	Location	Losses Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing and Ineffective Portion)(1) Three Months Ended Dec 31,	
		2013	2012
Derivatives in cash flow hedging relationship:			
Foreign currency options	Cost of revenue	\$	\$ (0.1)

(1) Losses related to the ineffective portion of the hedges were not material in all periods presented.

The gain recognized in accumulated other comprehensive loss from the Company's foreign currency options was immaterial for the three months ended December 31, 2013 and 2012. The gain reclassified from accumulated other comprehensive loss into income from the foreign currency options was immaterial in any of the years presented. Additionally, there were no losses recognized in income due to amounts excluded from effectiveness testing from the Company's interest rate swap agreements.

The effect of derivative instruments not designated as hedging instruments on income is summarized below (in millions):

**Gains / (Losses) Recognized
in Income on Derivatives
(Amount Excluded from
Effectiveness Testing and**

	Location	Ineffective Portion) (1)	
		Three Months Ended Dec 31, 2013	2012
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	General and administrative expenses	\$ (2.2)	\$ (1.0)
Option contracts	Cost of revenue		(0.1)
		\$ (2.2)	\$ (1.1)

(1) Losses related to the ineffective portion of the hedges were not material in all periods presented.

10. Fair Value Measurements

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

Table of Contents

Nonfinancial assets and liabilities include items such as goodwill and long lived assets that are measured at fair value resulting from impairment, if deemed necessary. During the three months ended December 31, 2013 and 2012, the Company did not record any fair value adjustments to those financial and nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Fair Value Hierarchy

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

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

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

	December 31, 2013		Quoted Prices in Active Markets for Identical Assets (Level 2)	
Foreign currency options	\$	0.1	\$	0.1
Foreign currency forward contracts		1.4		1.4
Total assets	\$	1.5	\$	1.5
Interest rate swap agreements	\$	3.2	\$	3.2
Foreign currency forward contracts		2.8		2.8
Total liabilities	\$	6.0	\$	6.0

	September 30, 2013		Quoted Prices in Active Markets for Similar Assets (Level 2)	
Foreign currency options	\$	0.1	\$	0.1

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Foreign currency forward contracts		1.6		1.6
Total assets	\$	1.7	\$	1.7
Interest rate swap agreements	\$	3.7	\$	3.7
Foreign currency forward contracts		1.5		1.5
Total liabilities	\$	5.2	\$	5.2

11. Share-based Payments

The fair value of the Company's employee stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The expected term of awards granted represents the period of time the awards are expected to be outstanding. The risk-free interest rate is based on U.S. Treasury bond rates with maturities equal to the expected term of the option on the grant date. The Company uses historical data as a basis to estimate the probability of forfeitures. The Company did not grant any employee stock options during the three months ended December 31, 2013 and 2012.

Table of Contents

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

	2013		2012	
	Shares of stock under options (in millions)	Weighted average exercise price	Shares of stock under options (in millions)	Weighted average exercise price
Outstanding at September 30	1.6	\$ 24.73	2.5	\$ 22.81
Options granted				
Options exercised	(0.1)	17.23	(0.3)	12.71
Options forfeited or expired	(0.1)	26.74	(0.1)	27.18
Outstanding at December 31	1.4	25.15	2.1	23.67
Vested and expected to vest in the future as of December 31	1.4	\$ 25.15	2.1	\$ 23.65

The Company grants stock units to employees under its Performance Earnings Program (PEP), whereby units are earned and issued dependent upon meeting established cumulative performance objectives over a two or three year period. Additionally, the Company issues restricted stock units to employees which are earned based on service conditions. Total compensation expense related to share-based payments was \$10.7 million and \$6.8 million during the three months ended December 31, 2013 and 2012, respectively. Unrecognized compensation expense related to total share-based payments outstanding was \$95.8 million and \$52.6 million as of December 31, 2013 and September 30, 2013, respectively, to be recognized on a straight-line basis over the awards' respective vesting periods which are generally three years.

Cash flows attributable to tax benefits resulting from tax deductions in excess of compensation cost recognized for those stock options (excess tax benefits) is classified as financing cash flows. Excess tax benefits of \$0.4 million and \$0.7 million for the three months ended December 31, 2013 and 2012, respectively, have been classified as financing cash inflows in the consolidated statements of cash flows.

12. Income Taxes

The Company's effective tax rate was 29.3% and 24.6% for the three months ended December 31, 2013 and 2012, respectively. The Company's effective tax rate is lower than the federal statutory rate of 35.0% primarily due to the tax rate differential on foreign earnings where the statutory rates are generally lower than the federal statutory rate. Our effective tax rate fluctuates from quarter to quarter due to several factors including the change in the mix of foreign and domestic earnings, tax law changes, outcomes of administrative audits, changes in our assessment of valuation allowances and other tax contingencies.

13. Earnings Per Share

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
	(in millions)	
Denominator for basic earnings per share	96.3	104.8
Potential common shares	1.3	0.7
Denominator for diluted earnings per share	97.6	105.5

EPS includes the effect of repurchased shares, which are discussed in Note 3 herein. For the three months ended December 31, 2013 and 2012, options excluded from the calculation of potential common shares were not significant.

Table of Contents**14. Other Financial Information**

Accrued expenses and other current liabilities consist of the following:

	December 31, 2013		September 30, 2013
	(in millions)		
Accrued salaries and benefits	\$ 408.0	\$	410.6
Accrued contract costs	410.5		404.2
Other accrued expenses	86.0		100.5
	\$ 904.5	\$	915.3

Accrued contract costs above include balances related to professional liability accruals of \$124.3 million and \$121.3 million as of December 31, 2013 and September 30, 2013, respectively. The remaining accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees.

Other long-term liabilities consist of the following:

	December 31, 2013		September 30, 2013
	(in millions)		
Pension liabilities (Note 7)	\$ 190.7	\$	192.7
Reserve for uncertain tax positions	59.7		60.2
Other	190.9		196.0
	\$ 441.3	\$	448.9

15. Reclassifications out of Accumulated Other Comprehensive Loss

The accumulated balances and reporting period activities for the three months ended December 31, 2013 related to reclassifications out of accumulated other comprehensive loss are summarized as follows (in millions):

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Loss on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30	\$ (192.8)	\$ (66.4)	\$ (2.1)	\$ (261.3)
Other comprehensive income before reclassification	(2.5)	(25.2)	(0.2)	(27.9)
Amounts reclassified from accumulated other comprehensive				

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

loss:					
Actuarial losses, net of tax			1.5		1.5
Cash flow hedge losses, net of tax				0.5	0.5
Balances at December 31	\$	(193.8)	\$	(91.6)	\$ (1.8)
					\$ (287.2)

Accumulated Other Comprehensive Loss Components		Amounts Reclassified from Accumulated Other Comprehensive Loss	
Cash flow hedges(1)	\$	0.8	
Taxes		(0.3)	
Cash flow hedges, net of tax	\$	0.5	
Actuarial losses(2)	\$	2.1	
Taxes		(0.6)	
Actuarial losses, net of tax	\$	1.5	

(1) This accumulated other comprehensive component is reclassified in Interest expense in our Consolidated Statements of Income. See Note 9, Derivative Financial Instruments, for more information.

(2) This accumulated other comprehensive component is reclassified in Cost of revenue and General and administrative expenses in our Consolidated Statements of Income. See Note 7, Pension Benefit Obligations, for more information.

Table of Contents

16. Commitments and Contingencies

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

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

In some instances, the Company guarantees that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may either incur additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards. At December 31, 2013, the Company was contingently liable in the amount of approximately \$294.0 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for payment and performance guarantees.

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

Global Linguists Solutions Joint Venture

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

GLS is performing a review of the issues raised in the Forms 1 in order to respond fully to the questioned costs. Based on a preliminary review, GLS believes that it met the applicable contract requirements in all material respects.

Additionally, on April 20, 2012, GLS received a subpoena from the Office of the Inspector General of the U.S. Department of Defense requesting documentation related to the same contract with the United States Army. GLS has responded to the government's request and is cooperating in the government's investigation. If the DCAA Forms 1 are not overruled and subsequent appeals are unsuccessful or there are unfavorable consequences from the Inspector General's investigation, these events could have a material adverse effect on the Company's results of operations.

AECOM Australia

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

Table of Contents

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

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

Hawaii Project

The U.S. Attorney's Office (USAO) informed the Company in May 2011 that the USAO and the U.S. Environmental Protection Agency are investigating potential criminal charges in connection with services a subsidiary of the Company provided to the operator of the Waimanalo Gulch Sanitary Landfill in Hawaii. The Company has cooperated fully with the investigation and, as of this date, no actions have been filed. The Company believes that the investigation will show that there has been no criminal wrongdoing on its part or any of its subsidiaries and, if any actions are brought, the Company intends to vigorously defend against such actions.

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

17. Reportable Segments

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

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

associated with external service providers.

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

Reportable Segments:	Professional Technical Services	Management Support Services	Corporate	Total
	(in millions)			
Three Months Ended December 31, 2013:				
Revenue	\$ 1,770.2	\$ 183.7	\$	\$ 1,953.9
Revenue, net of other direct costs(1)	1,041.6	109.9		1,151.5
Gross profit	60.0	18.2		78.2
Equity in earnings of joint ventures	34.1	2.0		36.1
General and administrative expenses			(23.9)	(23.9)
Operating income	94.1	20.2	(23.9)	90.4
Gross profit as a % of revenue	3.4%	9.9%		4.0%
Gross profit as a % of revenue, net of other direct costs(1)	5.8%	16.6%		6.8%

Table of Contents

Reportable Segments:	Professional Technical Services	Management Support Services	Corporate	Total
	(in millions)			
Three Months Ended December 31, 2012:				
Revenue	\$ 1,771.2	\$ 246.1	\$	\$ 2,017.3
Revenue, net of other direct costs(1)	1,093.8	151.2		1,245.0
Gross profit	69.3	8.8		78.1
Equity in earnings of joint ventures	5.1	0.8		5.9
General and administrative expenses			(22.1)	(22.1)
Operating income	74.4	9.6	(22.1)	61.9
Gross profit as a % of revenue	3.9%	3.6%		3.9%
Gross profit as a % of revenue, net of other direct costs(1)	6.3%	5.8%		6.3%

(1) Non-GAAP measure

18. Subsequent Event

On January 29, 2014, the Company entered into a Fourth Amended and Restated Credit Agreement (Fourth Revolving Credit Agreement) with Bank of America, N.A., as an administrative agent and a lender and the other lenders party thereto, which provides for a borrowing capacity of \$1.05 billion. The Fourth Revolving Credit Agreement has a maturity date of January 29, 2019.

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, will, would, words of similar meaning, with reference to us or our management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including, but not limited to, our dependence on long-term government contracts, which are subject to uncertainties concerning the government's budgetary approval process, the possibility that our government contracts may be terminated by the government, the risk of employee misconduct or our failure to comply with laws and regulations, and our ability to successfully execute our mergers and acquisitions strategy, including the integration of new companies into our business. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. Please review

Part II, Item 1A Risk Factors in this Quarterly Report for a discussion of the factors, risks and uncertainties that could affect our future results.

Overview

We are a leading provider of professional technical and management support services for public and private clients around the world. We provide our services in a broad range of end markets through a network of approximately 44,400 employees.

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

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

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

Table of Contents

Our revenue is dependent on our ability to attract and retain qualified and productive employees, identify business opportunities, integrate and maximize the value of our recent acquisitions, allocate our labor resources to profitable and high growth markets, secure new contracts and renew existing client agreements. Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending, which may result in clients delaying, curtailing or canceling proposed and existing projects. Moreover, as a professional services company, maintaining the high quality of the work generated by our employees is integral to our revenue generation and profitability.

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

We define revenue provided by acquired companies as revenue included in the current period up to twelve months subsequent to their acquisition date. Throughout this section, we refer to companies we acquired in the last twelve months as acquired companies.

Components of Income and Expense

Our management analyzes the results of our operations using several financial measures not in accordance with generally accepted accounting principles (GAAP). A significant portion of our revenue relates to services provided by subcontractors and other non-employees that we categorize as other direct costs. Those costs are typically paid to service providers upon our receipt of payment from the client. We segregate other direct costs from revenue resulting in a measurement that we refer to as revenue, net of other direct costs, which is a measure of work performed by AECOM employees. A large portion of our fees are derived through work performed by AECOM employees rather than other parties. We have included information on revenue, net of other direct costs, as we believe that it is useful to view our revenue exclusive of costs associated with external service providers, and the related gross margins, as discussed in Results of Operations below. Because of the importance of maintaining the high quality of work generated by our employees, gross margin is an important metric that we review in evaluating our operating performance.

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

	Three Months Ended December 31,	
	2013	2012
	(in millions)	
Other Financial Data:		
Revenue	\$ 1,953.9	\$ 2,017.3
Other direct costs(1)	802.4	772.3
Revenue, net of other direct costs(1)	1,151.5	1,245.0
Cost of revenue, net of other direct costs(1)	1,073.3	1,166.9
Gross profit	78.2	78.1
Equity in earnings of joint ventures	36.1	5.9
General and administrative expenses	(23.9)	(22.1)
Income from operations	\$ 90.4	\$ 61.9

Reconciliation of Cost of Revenue:

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Other direct costs	\$	802.4	\$	772.3
Cost of revenue, net of other direct costs		1,073.3		1,166.9
Cost of revenue	\$	1,875.7	\$	1,939.2

(1) Non-GAAP measure

Table of Contents**Results of Operations***Three months ended December 31, 2013 compared to the three months ended December 31, 2012*Consolidated Results

	December 31, 2013	Three Months Ended December 31, 2012		Change	
				\$	%
		(in millions)			
Revenue	\$ 1,953.9	\$ 2,017.3	\$ (63.4)	(3.1)%	
Other direct costs	802.4	772.3	30.1	3.9	
Revenue, net of other direct costs	1,151.5	1,245.0	(93.5)	(7.5)	
Cost of revenue, net of other direct costs	1,073.3	1,166.9	(93.6)	(8.0)	
Gross profit	78.2	78.1	0.1	0.1	
Equity in earnings of joint ventures	36.1	5.9	30.2	511.9	
General and administrative expenses	(23.9)	(22.1)	(1.8)	8.1	
Income from operations	90.4	61.9	28.5	46.0	
Other income		0.7	(0.7)	(100.0)	
Interest expense, net	(10.4)	(10.9)	0.5	(4.6)	
Income before income tax expense	80.0	51.7	28.3	54.7	
Income tax expense	23.5	12.7	10.8	85.0	
Net income	56.5	39.0	17.5	44.9	
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.1)	(0.9)	0.8	(88.9)	
Net income attributable to AECOM	\$ 56.4	\$ 38.1	\$ 18.3	48.0%	

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
Revenue, net of other direct costs	100.0%	100.0%
Cost of revenue, net of other direct costs	93.2	93.7
Gross margin	6.8	6.3
Equity in earnings of joint ventures	3.1	0.5
General and administrative expense	(2.0)	(1.8)
Income from operations	7.9	5.0
Other income		0.1
Interest expense, net	(1.0)	(0.9)
Income before income tax expense	6.9	4.2
Income tax expense	2.0	1.1
Net income	4.9	3.1
Noncontrolling interests in income of consolidated subsidiaries, net of tax		
Net income attributable to AECOM	4.9%	3.1%

Revenue

Our revenue for the three months ended December 31, 2013 decreased \$63.4 million, or 3.1%, to \$1,953.9 million as compared to \$2,017.3 million for the corresponding period last year. Revenue provided by acquired companies was \$18.6 million for the three months ended December 31, 2013. Excluding the revenue provided by acquired companies, revenue decreased \$82.0 million, or 4.1%, from the three months ended December 31, 2012.

The decrease in revenue, excluding acquired companies, for the three months ended December 31, 2013 was primarily attributable to decreases in our MSS segment of \$62 million noted below and in Australia of approximately \$70 million substantially from decreased mining related services. These decreases were partially offset by increases in the Americas and the Middle East of approximately \$20 million each. The increase in the Americas was primarily due to an increase in construction services, partially offset by a reduction in engineering and program management services.

Table of Contents

Revenue, Net of Other Direct Costs

Our revenue, net of other direct costs, for the three months ended December 31, 2013 decreased \$93.5 million, or 7.5%, to \$1,151.5 million as compared to \$1,245.0 million for the corresponding period last year. Revenue, net of other direct costs, provided by acquired companies was \$15.9 million for the three months ended December 31, 2013. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, decreased \$109.4 million, or 8.8%, from the three months ended December 31, 2012.

The decrease in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, for the three months ended December 31, 2013 was primarily due to decreases in our MSS segment of \$41 million noted below and in Australia of approximately \$40 million substantially from decreased mining related services, and a reduction in engineering and program management services in the Americas of approximately \$40 million. These decreases were partially offset by increases in the Europe, Middle East and Africa region of \$10 million and Asia of \$10 million.

Gross Profit

Our gross profit for the three months ended December 31, 2013 increased \$0.1 million, or 0.1%, to \$78.2 million as compared to \$78.1 million for the corresponding period last year. Gross profit provided by acquired companies was \$2.3 million for the three months ended December 31, 2013. Excluding gross profit provided by acquired companies, gross profit decreased \$2.2 million, or 2.8%, from the three months ended December 31, 2012. For the three months ended December 31, 2013, gross profit, as a percentage of revenue, net of other direct costs, increased to 6.8% from 6.3% in the three months ended December 31, 2012.

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended December 31, 2013 increased \$30.2 million, or 511.9%, to \$36.1 million as compared to \$5.9 million in the corresponding period last year primarily due to a \$37.4 million gain on change in control of an unconsolidated joint venture that performs engineering and program management services in the Middle East and is included in the Company's PTS segment. The gain relates to the excess of fair value over the carrying value of the previously held equity interest in the unconsolidated joint venture. See further discussion in Note 6 to the accompanying financial statements. The gain on change in control was partially offset by an impairment of an unrelated joint venture investment.

General and Administrative Expenses

Our general and administrative expenses for the three months ended December 31, 2013 increased \$1.8 million, or 8.1%, to \$23.9 million as compared to \$22.1 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, general and administrative expenses increased to 2.0% from 1.8% in the three months ended December 31, 2012.

Other Income

There was no other income for the three months ended December 31, 2013, a decrease of \$0.7 million from \$0.7 million for the three months ended December 31, 2012.

Interest Expense

Our interest expense for the three months ended December 31, 2013 decreased \$0.5 million to \$10.4 million as compared to \$10.9 million for the three months ended December 31, 2012.

Income Tax Expense

Our income tax expense for the three months ended December 31, 2013 increased \$10.8 million, or 85.0%, to \$23.5 million as compared to \$12.7 million for the three months ended December 31, 2012.

The increase in income tax expense for the three months ended December 31, 2013 was primarily due to the gain recognized on the change in control of the unconsolidated joint venture discussed above.

Net Income Attributable to AECOM

The factors described above resulted in net income attributable to AECOM of \$56.4 million for the three months ended December 31, 2013 as compared to net income attributable to AECOM of \$38.1 million for the three months ended December 31, 2012.

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

	December 31, 2013	Three Months Ended		Change	
		December 31, 2012	(in millions)		\$
Revenue	\$ 1,770.2	\$ 1,771.2	\$	(1.0)	(0.1)%
Other direct costs	728.6	677.4		51.2	7.6
Revenue, net of other direct costs	1,041.6	1,093.8		(52.2)	(4.8)
Cost of revenue, net of other direct costs	981.6	1,024.5		(42.9)	(4.2)
Gross profit	\$ 60.0	\$ 69.3	\$	(9.3)	(13.4)%

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
Revenue, net of other direct costs	100.0%	100.0%
Cost of revenue, net of other direct costs	94.2	93.7
Gross margin	5.8%	6.3%

Revenue

Revenue for our PTS segment for the three months ended December 31, 2013 decreased \$1.0 million, or 0.1%, to \$1,770.2 million as compared to \$1,771.2 million for the corresponding period last year. Revenue provided by acquired companies was \$18.6 million for the three months ended December 31, 2013. Excluding revenue provided by acquired companies, revenue decreased \$19.6 million, or 1.1%, from the three months ended December 31, 2012.

The decrease in revenue, excluding acquired companies, for the three months ended December 31, 2013 was primarily attributable to a decrease in Australia of approximately \$70 million substantially from decreased mining related services. These decreases were partially offset by increases in the Americas and the Middle East of approximately \$20 million each. The increase in the Americas was primarily due to an increase in construction services, partially offset by a reduction in engineering and program management services.

Revenue, Net of Other Direct Costs

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Revenue, net of other direct costs, for our PTS segment for the three months ended December 31, 2013 decreased \$52.2 million, or 4.8%, to \$1,041.6 million as compared to \$1,093.8 million for the corresponding period last year. Revenue, net of other direct costs, provided by acquired companies was \$15.9 million for the three months ended December 31, 2013. Excluding revenue, net of other direct costs, provided by acquired companies, revenue, net of other direct costs, decreased \$68.1 million, or 6.2%, from the three months ended December 31, 2012.

The decrease in revenue, net of other direct costs, excluding revenue, net of other direct costs provided by acquired companies, for the three months ended December 31, 2013 was primarily due to a decrease in Australia of approximately \$40 million substantially from decreased mining related services, and a reduction in engineering and program management services in the Americas of approximately \$40 million. These decreases were partially offset by increases in the Europe, Middle East and Africa region of \$10 million and Asia of \$10 million.

Gross Profit

Gross profit for our PTS segment for the three months ended December 31, 2013 decreased \$9.3 million, or 13.4%, to \$60.0 million as compared to \$69.3 million for the corresponding period last year. Gross profit provided by acquired companies was \$2.3 million for the three months ended December 31, 2013. Excluding gross profit provided by acquired companies, gross profit decreased \$11.6 million, or 16.7%, from the three months ended December 31, 2012. As a percentage of revenue, net of other direct costs, gross profit decreased to 5.8% of revenue, net of other direct costs, for the three months ended December 31, 2013 from 6.3% in the corresponding period last year.

The decrease in gross profit and gross profit as a percentage of revenue, net of other direct costs, was primarily attributable to a decline in gross profit in Australia and the Americas.

Table of ContentsManagement Support Services

	December 31, 2013	Three Months Ended		Change	
		December 31, 2012	(in millions)		\$
Revenue	\$ 183.7	\$ 246.1	\$	(62.4)	(25.4)%
Other direct costs	73.8	94.9		(21.1)	(22.2)
Revenue, net of other direct costs	109.9	151.2		(41.3)	(27.3)
Cost of revenue, net of other direct costs	91.7	142.4		(50.7)	(35.6)
Gross profit	\$ 18.2	\$ 8.8	\$	9.4	106.8%

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

	Three Months Ended	
	December 31, 2013	December 31, 2012
Revenue, net of other direct costs	100.0%	100.0%
Cost of revenue, net of other direct costs	83.4	94.2
Gross margin	16.6%	5.8%

Revenue

Revenue for our MSS segment for the three months ended December 31, 2013 decreased \$62.4 million, or 25.4%, to \$183.7 million as compared to \$246.1 million for the corresponding period last year. No revenue, net of other direct costs, was provided by acquired companies.

The decrease was primarily due to decreased services provided to the U.S. government in the Middle East.

Revenue, Net of Other Direct Costs

Revenue, net of other direct costs, for our MSS segment for the three months ended December 31, 2013 decreased \$41.3 million, or 27.3%, to \$109.9 million as compared to \$151.2 million for the corresponding period last year. No revenue, net of other direct costs, was provided by acquired companies.

The decrease was primarily due to decreased services provided to the U.S. government in the Middle East.

Gross Profit

Gross profit for our MSS segment for the three months ended December 31, 2013 increased \$9.4 million, or 106.8%, to \$18.2 million as compared to \$8.8 million for the corresponding period last year. As a percentage of revenue, net of other direct costs, gross profit increased to 16.6% of revenue, net of other direct costs, for the three months ended December 31, 2013 from 5.8% in the corresponding period last year. No gross profit was provided by acquired companies.

The increase in gross profit and gross profit, as a percentage of revenue, net of other direct costs, for the three months ended December 31, 2013 was primarily due to the collection of a previously reserved Libya-related project receivable, partially offset by decreased services provided to the U.S. government in the Middle East.

Seasonality

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

Table of Contents

Liquidity and Capital Resources

Cash Flows

Our principal sources of liquidity are cash flows from operations, borrowings under our credit facilities, and access to financial markets. Our principal uses of cash are operating expenses, capital expenditures, working capital requirements, acquisitions, repurchases of stock under our stock repurchase program and repayment of debt. We believe our anticipated sources of liquidity including operating cash flows, existing cash and cash equivalents, borrowing capacity under our revolving credit facility and our ability to issue debt or equity, if required, will be sufficient to meet our projected cash requirements for at least the next 12 months.

At December 31, 2013, cash and cash equivalents were \$681.7 million, an increase of \$81.0 million, or 13.5%, from \$600.7 million at September 30, 2013. The increase in cash and cash equivalents was primarily attributable to cash provided by operating activities and net borrowings under credit agreements, partially offset by cash payments for stock repurchases, capital expenditures, and purchases of investments.

Net cash provided by operating activities was \$137.4 million for the three months ended December 31, 2013, an increase of \$70.3 million, or 104.8%, from \$67.1 million for the three months ended December 31, 2012. The increase was primarily attributable to the timing of receipts and payments of working capital, which include accounts receivable, accounts payable, accrued expenses, and billings in excess of costs on uncompleted contracts. The sale of trade receivables to financial institutions during the three months ended December 31, 2013 provided a net benefit of \$9.3 million as compared to \$51.0 million during the three months ended December 31, 2012. We expect to continue to sell trade receivables in the future as long as the terms continue to remain favorable to AECOM.

Net cash used in investing activities was \$20.5 million for the three months ended December 31, 2013, compared with \$52.2 million for the three months ended December 31, 2012. This decrease was primarily attributable to a \$41.1 million decrease in payments for business acquisitions, net of cash acquired, coupled with \$19.0 million of cash acquired from the consolidation of a joint venture, partially offset by an increase in the purchase of investments of \$20.0 million.

Net cash used in financing activities was \$33.3 million for the three months ended December 31, 2013, compared with \$16.9 million for the three months ended December 31, 2012. The increase was primarily attributable to a decrease in net borrowings under credit agreements of \$145.7 million and an increase in distributions to noncontrolling interests of \$10.4 million, partially offset by a decrease in payments to repurchase common stock under the Repurchase Program of \$138.9 million.

Working Capital

Working capital, or current assets less current liabilities, increased \$11.1 million, or 1.0%, to \$1,089.2 million at December 31, 2013 from \$1,078.1 million at September 30, 2013. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, increased \$29.5 million, or 1.5%, to \$2,049.3 million at December 31, 2013.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

Accounts receivable increased 2.9%, or \$67.7 million, to \$2,410.0 million at December 31, 2013 from \$2,342.3 million at September 30, 2013.

Days Sales Outstanding (DSO), which includes accounts receivable, net of billings in excess of costs on uncompleted contracts, and excludes the effects of recent acquisitions was 93 days at December 31, 2013 compared to the 88 days at September 30, 2013.

In Note 5, Accounts Receivable Net, in the notes to our consolidated financial statements, a comparative analysis of the various components of accounts receivable is provided. Substantially all unbilled receivables are expected to be billed and collected within twelve months.

Unbilled receivables related to claims are recorded only if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated. In such cases, revenue is recorded only to the extent that contract costs relating to the claim have been incurred. Other than as disclosed, there are no significant net receivables related to contract claims as of December 31, 2013 and September 30, 2013. Award fees in unbilled receivables are accrued only when there is sufficient information to assess contract performance. On contracts that represent higher than normal risk or technical difficulty, award fees are generally deferred until an award fee letter is received.

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

Table of Contents**Debt**

Debt consisted of the following:

	December 31, 2013	September 30, 2013
	(in millions)	
Unsecured term credit agreement	\$ 750.0	\$ 750.0
Unsecured senior notes	261.1	260.2
Unsecured revolving credit facility	138.2	114.7
Other debt	54.8	48.4
Total debt	1,204.1	1,173.3
Less: Current portion of debt and short-term borrowings	(90.6)	(84.3)
Long-term debt, less current portion	\$ 1,113.5	\$ 1,089.0

The following table presents, in millions, scheduled maturities of our debt as of December 31, 2013:

Fiscal Year	
2014 (nine months remaining)	\$ 90.6
2015	38.3
2016	176.4
2017	37.7
2018	600.0
Thereafter	261.1
Total	\$ 1,204.1

Unsecured Term Credit Agreement

In June 2013, we entered into a Second Amended and Restated Credit Agreement (Term Credit Agreement) with Bank of America, N.A., as administrative agent and a lender, and the other lenders party thereto. Pursuant to the Term Credit Agreement, we borrowed \$750 million and may borrow up to an additional \$100 million subject to certain conditions, including Company and lender approval. We used approximately \$675 million of the proceeds from the loans to repay indebtedness under our prior term loan facility. The loans under the Term Credit Agreement bear interest, at our option, at either the Base Rate (as defined in the Term Credit Agreement) plus an applicable margin or the Eurodollar Rate (as defined in the Term Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.125% to 1.250% and the applicable margin for Eurodollar Rate loans is a range of 1.125% to 2.250%, both based on our debt-to-earnings leverage ratio at the end of each fiscal quarter. For the three months ended December 31, 2013 and 2012, the average interest rate of our term loan facility was 1.68% and 2.02%, respectively. Payments of the initial principal amount outstanding under the Term Credit Agreement are required on an annual basis beginning on June 30, 2014 with the final principal balance of \$600 million due on June 7, 2018. We may, at our option, prepay the loans at any time, without penalty.

Unsecured Senior Notes

In July 2010, we issued \$300 million of notes to private institutional investors. The notes consisted of \$175.0 million of 5.43% Senior Notes, Series A, due July 2020 and \$125.0 million of 1.00% Senior Discount Notes, Series B, due July 2022 for net proceeds of \$249.8 million. The outstanding accreted balance of Series B Notes, which have an effective interest rate of 5.62%, was \$86.1 million and \$85.2 million at December 31, 2013 and September 30, 2013, respectively. The fair value of our unsecured senior notes was approximately \$276.8 million and \$269.4 million at December 31, 2013 and September 30, 2013, respectively. We calculated the fair values based on model-derived valuations using market observable inputs, which are Level 2 inputs under the accounting guidance. Our obligations under the notes are guaranteed by certain of our subsidiaries pursuant to one or more subsidiary guarantees.

Table of Contents

Unsecured Revolving Credit Facility

In July 2011, the Company entered into a Third Amended and Restated Credit Agreement (Revolving Credit Agreement) with Bank of America, N.A., as an administrative agent and a lender and the other lenders party thereto, which provides for a borrowing capacity of \$1.05 billion. In June 2013, we entered into a Fourth Amendment to the Revolving Credit Agreement to, among other things, conform certain provisions to the applicable provisions in the Term Credit Agreement. The Revolving Credit Agreement has an expiration date of July 20, 2016, and prior to this expiration date, principal amounts outstanding under the Revolving Credit Agreement may be repaid and reborrowed at our option without prepayment or penalty, subject to certain conditions. We may request an increase in capacity of up to a total of \$1.15 billion, subject to certain conditions. The loans under the Revolving Credit Agreement may be borrowed in dollars or in certain foreign currencies and bear interest, at our option, at either the Base Rate (as defined in the Revolving Credit Agreement) plus an applicable margin or the Eurocurrency Rate (as defined in the Revolving Credit Agreement) plus an applicable margin. The applicable margin for the Base Rate loans is a range of 0.00% to 1.50% and the applicable margin for the Eurocurrency Rate loans is a range of 1.00% to 2.50%, both based on our debt-to-earnings leverage ratio at the end of each fiscal quarter. In addition to these borrowing rates, there is a commitment fee which ranges from 0.150% to 0.375% on any unused commitment. At December 31, 2013 and September 30, 2013, \$138.2 million and \$114.7 million, respectively, were outstanding under the revolving credit facility. At December 31, 2013 and September 30, 2013, outstanding standby letters of credit totaled \$35.5 million under our revolving credit facility. As of December 31, 2013, we had \$876.3 million available under our Revolving Credit Agreement. See Note 18, Subsequent Event, in the accompanying Notes to the Consolidated Financial Statements regarding the recent credit facility amendment.

Covenants and Restrictions

Under our debt agreements relating to our unsecured revolving credit facility, unsecured term credit agreement, and unsecured senior notes, we are subject to a maximum consolidated leverage ratio at the end of each fiscal quarter. This ratio is calculated by dividing consolidated funded debt (including financial letters of credit and other adjustments per our debt agreements) by consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA). Subject to certain differences among our debt agreements, EBITDA is defined as consolidated net income attributable to AECOM plus interest, depreciation and amortization expense, amounts set aside for taxes and other non-cash items (including a calculated annualized EBITDA from our acquisitions). As of December 31, 2013, our most restrictive consolidated leverage ratio was 2.65, which did not exceed our maximum consolidated leverage ratio of 3.0.

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

Additionally, our unsecured senior notes contain covenants that limit (i) certain types of indebtedness, which include indebtedness incurred by subsidiaries and indebtedness secured by a lien, (ii) merging with other entities, (iii) entering into a transaction resulting in a change of control, (iv) creating new liens, (v) selling assets outside of the ordinary course of business, (vi) entering into transactions with affiliates, and (vii) substantially changing the general nature of the Company and its subsidiaries taken as a whole. The unsecured senior notes also contain a financial covenant that requires us to maintain a net worth above a calculated threshold. The threshold is calculated as \$1.2 billion plus 40% of the consolidated net income for each fiscal quarter commencing with the fiscal quarter ending June 30, 2010. In the calculation of this threshold, we cannot include a consolidated net loss that may occur in any fiscal quarter. Our net worth for this financial covenant is defined as total AECOM stockholders equity, which is consolidated stockholders equity, including any redeemable common stock and stock units and the liquidation preference of any preferred stock. As of December 31, 2013, this amount was \$2.0 billion, which exceeds the calculated threshold of \$1.6 billion.

Should we fail to comply with these covenants, all or a portion of our borrowings under the unsecured senior notes and unsecured term credit agreements could become immediately payable and its unsecured revolving credit facility could be terminated. At December 31, 2013 and September 30, 2013, we were in compliance with all such covenants.

Our average effective interest rate on total borrowings, including the effects of the interest rate swap agreements, during the three months ended December 31, 2013 and 2012 was 2.8% and 3.0%, respectively.

Notes Secured by Real Properties

Notes secured by real properties, payable to a bank, were assumed in connection with a business acquired during the year ended September 30, 2008. These notes payable accrued interest at 6.04% per annum and were to mature in December 2028. These notes were settled in connection with the sale of the real properties during the third quarter of fiscal 2013.

Other Debt

Other debt consists primarily of bank overdrafts and obligations under capital leases and other unsecured credit facilities. In addition to the unsecured revolving credit facility discussed above, we also have other unsecured credit facilities primarily used for standby letters of credit issued for payment and performance guarantees. At December 31, 2013 and September 30, 2013, these outstanding standby letters of credit totaled \$258.5 million and \$236.4 million, respectively. We had \$13.7 million and \$0.5 million of obligations outstanding under these unsecured credit facilities as of December 31, 2013 and September 30, 2013, respectively. As of December 31, 2013, we had \$355.6 million available under these unsecured credit facilities.

Table of Contents

Commitments and Contingencies

Other than normal property and equipment additions and replacements, expenditures to further the implementation of our Enterprise Resource Planning system, commitments under our incentive compensation programs, amounts we may expend to repurchase stock under our stock repurchase program and acquisitions from time to time, we currently do not have any significant capital expenditures or outlays planned except as described below. However, as we acquire additional businesses in the future or if we embark on other capital-intensive initiatives, additional working capital may be required.

Under our unsecured revolving credit facility and other facilities discussed in Other Debt above, as of December 31, 2013, there was approximately \$294.0 million outstanding under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for contract performance guarantees. For those projects for which we have issued a performance guarantee, if the project subsequently fails to meet guaranteed performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards.

We recognized on our balance sheet the funded status (measured as the difference between the fair value of plan assets and the projected benefit obligation) of our pension plans. The total amounts of employer contributions paid for the three months ended December 31, 2013 were \$1.1 million for U.S. plans and \$3.9 million for non-U.S. plans. Funding requirements for each plan are determined based on the local laws of the country where such plan resides. In certain countries, the funding requirements are mandatory while in other countries, they are discretionary. We do not have a required minimum contribution for our domestic plans; however, we may make additional discretionary contributions. In the future, such pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors.

Global Linguists Solutions Joint Venture

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

GLS is performing a review of the issues raised in the Forms 1 in order to respond fully to the questioned costs. Based on a preliminary review, GLS believes that it met the applicable contract requirements in all material respects.

Additionally, on April 20, 2012, GLS received a subpoena from the Office of the Inspector General of the U.S. Department of Defense requesting documentation related to the same contract with the United States Army. GLS has responded to the government's request and is cooperating in the government's investigation. If the DCAA Forms 1 are not overruled and subsequent appeals are unsuccessful or there are unfavorable consequences from the Inspector General's investigation, these events could have a material adverse effect on our results of operations.

AECOM Australia

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

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

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

Table of Contents

Hawaii Project

The U.S. Attorney's Office (USAO) informed us in May 2011 that the USAO and the U.S. Environmental Protection Agency are investigating potential criminal charges in connection with services our subsidiary provided to the operator of the Waimanalo Gulch Sanitary Landfill in Hawaii. We have cooperated fully with the investigation and, as of this date, no actions have been filed. We believe that the investigation will show that there has been no criminal wrongdoing on our part or any of our subsidiaries and, if any actions are brought, we intend to vigorously defend against such actions.

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

New Accounting Pronouncements and Changes in Accounting

In February 2013, the FASB issued new accounting guidance to update the presentation of reclassifications from comprehensive income to net income in consolidated financial statements. Under this new guidance, an entity is required to present information about the amounts reclassified out of accumulated other comprehensive income either by the respective line items of net income or by cross-reference to other required disclosures. The new guidance does not change the requirements for reporting net income or other comprehensive income in financial statements. This guidance was effective for our fiscal year beginning October 1, 2013 and did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued new accounting guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation (within the scope of this guidance) is fixed at the reporting date. Examples of obligations within the scope of this guidance include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. This new guidance is effective for annual reporting periods beginning after December 15, 2013 and subsequent interim periods. This guidance is effective for our fiscal year beginning October 1, 2014 and it is not expected to have a material impact on our consolidated financial statements.

In July 2013, the FASB issued new accounting guidance that requires the presentation of unrecognized tax benefits as a reduction of the deferred tax assets, when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. This guidance is effective for our fiscal year beginning October 1, 2014 and it is not expected to have a material impact on our consolidated financial statements.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Financial Market Risks

Financial Market Risks

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

Table of Contents

Foreign Exchange Rates

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

Interest Rates

Our senior revolving credit facility and certain other debt obligations are subject to variable rate interest which could be adversely affected by an increase in interest rates. As of December 31, 2013 and September 30, 2013, we had \$888.2 million and \$864.7 million, respectively, in outstanding borrowings under our unsecured term credit agreements and our unsecured revolving credit facility. Interest on amounts borrowed under these agreements is subject to adjustment based on certain levels of financial performance. The applicable margin that is added to the borrowing's base rate can range from 0.0% to 2.5%. For the three months ended December 31, 2013, our weighted average floating rate borrowings were \$381.9 million, excluding borrowings with effective fixed interest rates due to swap agreements. If short term floating interest rates had increased or decreased by 1%, our interest expense for the three months ended December 31, 2013 would have increased or decreased by \$1.0 million. We invest our cash in a variety of financial instruments, consisting principally of money market securities or other highly liquid, short-term securities that are subject to minimal credit and market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), were effective as of December 31, 2013 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our quarter ended December 31, 2013 which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

We are involved in various investigations, claims and lawsuits in the normal conduct of our business. Although the outcome of our legal proceedings cannot be predicted with certainty and no assurances can be provided, in the opinion of our management, based upon current information and discussions with counsel, none of the investigations, claims and lawsuits in which we are involved is expected to have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business. See Note 16,

Commitments and Contingencies, to the financial statements contained in this report for a discussion of certain matters to which we are a party. From time to time, we establish reserves for litigation when we consider it probable that a loss will occur.

Table of Contents

Item 1A. Risk Factors

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

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

A substantial majority of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal 2013, 2012 and 2011, approximately 59%, 60% and 64%, respectively, of our revenue was derived from contracts with government entities.

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

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

Under the Budget Control Act of 2011, an automatic sequestration process, or across-the-board budget cuts, was triggered when the Joint Select Committee on Deficit Reduction, a committee of twelve members of Congress, failed to agree on a deficit reduction plan for the U.S. federal budget. The sequestration began on March 1, 2013. Although the Bipartisan Budget Act of 2013 provided some sequester relief, absent additional legislative or other remedial action, the sequestration requires reduced U.S. federal government spending over a ten-year period. A significant reduction in federal government spending could reduce demand for our services, cancel or delay federal projects, and result in the closure of federal facilities, and significant personnel reductions, which could have a material adverse effect on our results of operations and financial condition. In addition, the reduction in U.S. military forces in areas such as Afghanistan could also negatively impact our business.

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.

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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

Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending. If economic conditions remain weak and decline further, our revenue and profitability could be adversely affected.

Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending, which may result in clients delaying, curtailing or canceling proposed and existing projects. Economic conditions in the U.S. and a number of other countries and regions, including the United Kingdom and Australia, have been weak and may remain difficult for the foreseeable future. If global economic and financial market conditions remain weak and/or decline further, some of our clients may face considerable budget shortfalls that may limit their overall demand for our services. In addition, our clients may find it more difficult to raise capital in the future to fund their projects due to uncertainty in the municipal and general credit markets.

Table of Contents

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

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

Our books and records are subject to audit by the various governmental agencies we serve and their representatives. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies. For example, as discussed elsewhere in this report, the U.S. Defense Contract Audit Agency (DCAA) issued a DCAA Form 1 questioning costs incurred during fiscal 2009 by Global Linguists Solutions, a joint venture that includes McNeil Technologies, Inc., in the performance of U.S. government contracts. In addition, the U.S. Attorney's Office (USAO) has informed us that the USAO and the U.S. Environmental Protection Agency are investigating potential criminal charges relating to one of our subsidiaries' projects in the state of Hawaii. If such matters are not resolved in our favor, they could have a material adverse effect on our business. In addition, if one of our subsidiaries is charged with wrongdoing as a result of an audit, that subsidiary, and possibly our company as a whole, could be temporarily suspended or could be prohibited from bidding on and receiving future government contracts for a period of time. Furthermore, as a government contractor, we are subject to an increased risk of investigations, criminal prosecution, civil fraud actions, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not, the results of which could materially adversely impact our business.

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

Because we have grown in part through acquisitions, goodwill and intangible assets-net represent a substantial portion of our assets. Goodwill and intangible assets-net were \$2.0 billion as of December 31, 2013. Under accounting principles generally accepted in the United States, we are required to test goodwill carried in our Consolidated Balance Sheets for possible impairment on an annual basis based upon a fair value approach and whenever events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in a reporting unit's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, a significant sustained decline in our market capitalization and other factors.

In connection with our annual goodwill impairment testing for fiscal 2012, we recorded an impairment charge of \$336 million due to market conditions and business trends within the Europe, Middle East, and Africa (EMEA) and MSS reporting units. We cannot accurately predict the amount and timing of any future impairment. In addition to the goodwill impairment charge we recorded in fiscal 2012, we may be required to take additional goodwill impairment charges relating to certain of our reporting units if the fair value of our reporting units is less than their carrying value. Similarly, certain Company transactions, such as merger and acquisition transactions, could result in additional goodwill impairment charges being recorded.

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

Our 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 2013, revenue attributable to our services provided outside of the United States to non-U.S. clients was approximately 41% of our total revenue. There are risks inherent in doing business internationally, including:

- imposition of governmental controls and changes in laws, regulations or policies;

- political and economic instability;

- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;

- changes in U.S. and other national government trade policies affecting the markets for our services;

- changes in regulatory practices, tariffs and taxes;

- potential non-compliance with a wide variety of laws and regulations, including anti-corruption, export control and anti-boycott laws and similar non-U.S. laws and regulations;

- changes in labor conditions;

- logistical and communication challenges; and

- currency exchange rate fluctuations, devaluations and other conversion restrictions.

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

Table of Contents

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

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

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

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

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 Afghanistan, and, until relatively recently, Iraq and Libya, where the country or location is suffering from political, social or economic problems, or war or civil unrest. In those locations where we have employees or operations, we may incur material costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk. Acts of terrorism and threats of armed conflicts in or around various areas in which we operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of key employees, contractors or assets.

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 2013, approximately 42% of our revenue was recognized under fixed-price contracts. 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. In addition, our exposure to construction cost overruns may increase over time as we increase our construction

services. Losses under fixed-price contracts could be substantial and adversely impact our results of operations.

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

In certain circumstances, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. If we or an entity for which we have provided a guarantee subsequently fails to complete the project as scheduled and the matter cannot be satisfactorily resolved with the client, we may be responsible for cost impacts to the client resulting from any delay or the cost to complete the project. Our costs generally increase from schedule delays and/or could exceed our projections for a particular project. Material performance problems for existing and future contracts could cause actual results of operations to differ from those anticipated by us and also could cause us to suffer damage to our reputation within our industry and client base.

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

We have investments in and commitments to certain joint ventures with unrelated parties, including in connection with the investment activities of AECOM Capital. These joint ventures from time to time borrow money to help finance their activities and in certain circumstances, we are required to provide guarantees of certain obligations of our affiliated entities, including guarantees for completion of projects, repayment of debt, environmental indemnity obligations and acts of willful misconduct. If these entities are not able to honor their obligations, under the guarantees, we may be required to expend additional resources or suffer losses, which could be significant.

Table of Contents

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

Approximately 12% of our fiscal 2013 revenue was derived from our operations through joint ventures or similar partnership arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners, and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Sales of our services provided to our unconsolidated joint ventures were approximately 6% of our fiscal 2013 revenue. We generally do not have control of these unconsolidated joint ventures. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our financial condition and results of operations.

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

As a government contractor, misconduct, fraud or other improper activities caused by our employees or consultants failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with federal procurement regulations, environmental regulations, regulations regarding the protection of sensitive government information, legislation regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, and anti-corruption, export control and other applicable laws or regulations. For example, as discussed elsewhere in this report, the U.S. Attorney's Office (USAO) has informed us that the USAO and the U.S. Environmental Protection Agency are investigating potential criminal charges relating to one of our subsidiaries' projects in the state of Hawaii. If such matter is not resolved in our favor, it could have a material adverse effect on our business. Our failure to comply with applicable laws or regulations, misconduct by any of our employees or consultants or our failure to make timely and accurate certifications to government agencies regarding misconduct or potential misconduct could subject us to fines and penalties, loss of government granted eligibility, cancellation of contracts and suspension or debarment from contracting with government agencies, any of which may adversely affect our business.

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

We have defined benefit pension plans for employees in the United States, United Kingdom, Australia, Ireland, and Canada. At December 31, 2013, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately \$190.7 million. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors. Because the current economic environment has resulted in declining investment returns and interest rates, we may be required to make additional cash contributions to our pension plans and recognize further increases in our net pension cost to satisfy our funding requirements. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our results of operations could be materially and adversely affected.

New legal requirements could adversely affect our operating results.

Our business and results of operations could be adversely affected by the passage of U.S. health care reform, climate change, and other environmental legislation and regulations. We are continually assessing the impact that health care reform could have on our employer-sponsored medical plans. Growing concerns about climate change may result in the imposition of additional environmental regulations. For example, legislation, international protocols, regulation or other restrictions on emissions could increase the costs of projects for our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services. However, these changes could also increase the pace of development of other projects, which could have a positive impact on our business. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

Table of Contents

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

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

- liabilities related to pre-acquisition activities of an acquired business and the burdens on our staff and resources to comply with, conduct or resolve investigations into such activities;

- post-acquisition integration challenges; and

- post-acquisition deterioration in an acquired business that could result in lower or negative earnings contribution and/or goodwill impairment charges.

Furthermore, during the acquisition process and thereafter, our management may need to assume significant transaction-related responsibilities, which may cause them to divert their attention from our existing operations. If our management is unable to successfully integrate acquired companies or implement our growth strategy, our operating results could be harmed. Moreover, we cannot assure 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 government granted eligibility that may be required to obtain certain government projects. If we were to lose some or all of these personnel, they would be difficult to replace. Loss of the services of, or failure to recruit, key technical and management personnel could limit our ability to successfully complete existing projects and compete for new projects.

Our revenue and growth prospects may be harmed if we or our employees are unable to obtain government granted eligibility or other qualifications we and they need to perform services for our customers.

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

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

We are engaged in a highly competitive business. The professional technical and management support services markets we serve are highly fragmented and we compete with a large number of regional, national and international companies. Certain of these competitors have greater financial and other resources than we do. Others are smaller and more specialized, and concentrate their resources in particular areas of expertise. The extent of our competition varies according to the particular markets and geographic area.

Table of Contents

The degree and type of competition we face is also influenced by the type and scope of a particular project. Our clients make competitive determinations based upon qualifications, experience, performance, reputation, technology, customer relationships and ability to provide the relevant services in a timely, safe and cost-efficient manner. Increased competition may result in our inability to win bids for future projects and loss of revenue, profitability and market share.

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

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

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

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

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

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

At December 31, 2013, our contracted backlog was approximately \$8.8 billion and our awarded backlog was approximately \$9.6 billion for a total backlog of \$18.4 billion. Our contracted backlog includes revenue we expect to record in the future from signed contracts and, in the case of a public sector client, where the project has been funded. Our awarded backlog includes revenue we expect to record in the future where we have been awarded the work, but the contractual agreement has not yet been signed. We cannot guarantee that future revenue will be realized from either category of backlog or, if realized, will result in profits. Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time, projects are delayed, scaled back or canceled. These types of backlog reductions adversely affect the revenue and profits that we ultimately receive from contracts reflected in our backlog.

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

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

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

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

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

Table of Contents

If clients use our reports or other work product without appropriate disclaimers or in a misleading or incomplete manner, our business could be adversely affected.

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

Our quarterly operating results may fluctuate significantly.

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

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

Edgar Filing: AECOM TECHNOLOGY CORP - Form 10-Q

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

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

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

The state of the global credit markets could make it more difficult for us to access funds, refinance our existing indebtedness, enter into agreements for uncommitted bond facilities and new indebtedness, replace our existing revolving and term credit agreements on or before their respective expirations in 2016 and 2018 or obtain funding through the issuance of our securities. We use credit facilities to support our working capital and acquisition needs. There is no guarantee that we can continue to renew our credit facility on terms as favorable as those in our existing credit facility and, if we are unable to do so, our costs of borrowing and our business may be adversely affected.

Table of Contents

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

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

All of our debt agreements relating to our unsecured revolving credit facility, unsecured term credit agreements, and unsecured senior notes require us to maintain compliance with a maximum consolidated leverage ratio at the end of any fiscal quarter. The agreement governing our senior notes also requires us to maintain a net worth above a required threshold. As of December 31, 2013, our consolidated leverage ratio was 2.65, which did not exceed our most restrictive maximum consolidated leverage ratio of 3.0. As of December 31, 2013, our net worth was \$2.0 billion, which exceeds the required threshold of \$1.6 billion. Our ability to continue to meet these financial ratios and tests will be dependent upon our future performance and may be affected by events beyond our control (including factors discussed in this *Risk Factors* section). If we fail to satisfy these requirements, our indebtedness under these agreements could become accelerated and payable at a time when we are unable to pay them. This would adversely affect our ability to implement our operating strategies and would have a material adverse effect on our financial condition.

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

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

In addition, we face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber attacks and other security problems and system disruptions, including possible unauthorized access to our and our clients' proprietary or classified information. We rely on industry-accepted security measures and technology to securely maintain all confidential and proprietary information on our information systems. We have devoted and will continue to devote significant resources to the security of our computer systems, but they may still be vulnerable to these threats. A user who circumvents security measures could misappropriate confidential or proprietary information or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Table of Contents

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

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

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

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Stock Repurchase Program

In August 2011, the Board of Directors initially authorized a stock repurchase program (Repurchase Program), pursuant to which we could purchase our common stock, which was subsequently increased. The dollar value capacity of the Repurchase Program was authorized as follows:

Authorization Date	Increase in the Dollar Value Capacity	Maximum Dollar Value Capacity at the Authorization Date
	(amounts in millions)	
August 2011	\$ 200.0	\$ 200.0
August 2012	\$ 300.0	\$ 500.0
January 2013	\$ 500.0	\$ 1,000.0

Share repurchases under this program can be made through open market purchases, unsolicited or solicited privately negotiated transactions or other methods, including pursuant to a Rule 10b5-1 plan. The timing, nature and amount of purchases depended on a variety of factors, including market conditions and the volume limit defined by Rule 10b-18. Repurchased shares are retired, but remain authorized for registration and issuance in the future.

A summary of the repurchase activity for the three months ended December 31, 2013 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	(Amounts in Millions, Except Per Share Amounts)			
October 1 - 31, 2013	0.8	\$ 31.15	0.8	\$ 339.9
November 1 - 30, 2013				\$ 339.9
December 1 - 31, 2013				\$ 339.9
Total	0.8	\$ 31.15	0.8	\$ 339.9

Table of Contents**Item 6. Exhibits**

The following documents are filed as Exhibits to the Report:

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

Table of Contents

SIGNATURES

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

AECOM TECHNOLOGY CORPORATION

Date: February 4, 2014

By:

/s/ STEPHEN M. KADENACY
Stephen M. Kadenacy
Chief Financial Officer