

AECOM
Form 10-Q
February 10, 2016
[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, 2015

OR

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

For the transition period from to

Commission File Number 0-52423

AECOM

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

As of February 2, 2016, 152,610,376 shares of the registrant's common stock were outstanding.

Table of Contents

AECOM

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	1
Item 1.	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of December 31, 2015 (unaudited) and September 30, 2015</u>	1
	<u>Consolidated Statements of Operations for the Three Months Ended December 31, 2015 (unaudited) and December 31, 2014 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended December 31, 2015 (unaudited) and December 31, 2014 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2015 (unaudited) and December 31, 2014 (unaudited)</u>	4
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4.	<u>Controls and Procedures</u>	39
<u>PART II.</u>	<u>OTHER INFORMATION</u>	39
Item 1.	<u>Legal Proceedings</u>	39
Item 1A.	<u>Risk Factors</u>	39
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 4.	<u>Mine Safety Disclosure</u>	53
Item 6.	<u>Exhibits</u>	53
<u>SIGNATURES</u>		54

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

	December 31, 2015 (Unaudited)	September 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 525,403	\$ 543,016
Cash in consolidated joint ventures	132,641	140,877
Total cash and cash equivalents	658,044	683,893
Accounts receivable net	4,807,853	4,841,450
Prepaid expenses and other current assets	386,142	388,982
Income taxes receivable	44,535	81,161
Deferred tax assets net		250,599
TOTAL CURRENT ASSETS	5,896,574	6,246,085
PROPERTY AND EQUIPMENT NET	601,781	699,322
DEFERRED TAX ASSETS NET	125,479	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	314,425	321,625
GOODWILL	5,753,212	5,820,692
INTANGIBLE ASSETS NET	591,631	659,438
OTHER NON-CURRENT ASSETS	246,301	267,136
TOTAL ASSETS	\$ 13,529,403	\$ 14,014,298
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$ 3,163	\$ 2,788
Accounts payable	1,904,968	1,853,993
Accrued expenses and other current liabilities	2,021,749	2,167,771
Billings in excess of costs on uncompleted contracts	671,945	653,877
Current portion of long-term debt	153,269	157,623
TOTAL CURRENT LIABILITIES	4,755,094	4,836,052
OTHER LONG-TERM LIABILITIES	312,271	305,485
DEFERRED TAX LIABILITY NET	32,607	230,037
PENSION BENEFIT OBLIGATIONS	544,112	565,254
LONG-TERM DEBT	4,366,424	4,446,527
TOTAL LIABILITIES	10,010,508	10,383,355
COMMITMENTS AND CONTINGENCIES (Note 14)		
AECOM STOCKHOLDERS' EQUITY:		
	1,525	1,513

Edgar Filing: AECOM - Form 10-Q

Common stock authorized, 300,000,000 shares of \$0.01 par value as of December 31 and September 30, 2015; issued and outstanding 152,452,910 and 151,263,650 shares as of December 31 and September 30, 2015, respectively

Additional paid-in capital	3,536,242	3,518,999
Accumulated other comprehensive loss	(725,155)	(635,100)
Retained earnings	501,969	522,336
TOTAL AECOM STOCKHOLDERS EQUITY	3,314,581	3,407,748
Noncontrolling interests	204,314	223,195
TOTAL STOCKHOLDERS EQUITY	3,518,895	3,630,943
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 13,529,403	\$ 14,014,298

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	December 31, 2015	December 31, 2014
Revenue	\$ 4,297,651	\$ 4,210,468
Cost of revenue	4,156,793	4,075,738
Gross profit	140,858	134,730
Equity in earnings of joint ventures	25,263	23,924
General and administrative expenses	(28,639)	(34,338)
Acquisition and integration expenses	(41,038)	(138,463)
Income (loss) from operations	96,444	(14,147)
Loss on disposal activities	(41,053)	
Other income	3,042	2,579
Interest expense	(59,518)	(118,698)
Loss before income tax expense	(1,085)	(130,266)
Income tax benefit	(682)	(12,199)
Net loss	(403)	(118,067)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(19,964)	(20,908)
Net loss attributable to AECOM	\$ (20,367)	\$ (138,975)
Net loss attributable to AECOM per share:		
Basic	\$ (0.13)	\$ (0.98)
Diluted	\$ (0.13)	\$ (0.98)
Weighted average shares outstanding:		
Basic	153,619	141,892
Diluted	153,619	141,892

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Comprehensive Income (Loss)

(unaudited in thousands)

	Three Months Ended	
	December 31, 2015	December 31, 2014
Net loss	\$ (403)	\$ (118,067)
Other comprehensive income (loss), net of tax:		
Net unrealized gain (loss) on derivatives, net of tax	5,323	(1,057)
Foreign currency translation adjustments	(97,694)	(128,099)
Pension adjustments, net of tax	689	8,006
Other comprehensive loss, net of tax	(91,682)	(121,150)
Comprehensive loss, net of tax	(92,085)	(239,217)
Noncontrolling interests in comprehensive loss of consolidated subsidiaries, net of tax	(18,337)	(18,847)
Comprehensive loss attributable to AECOM, net of tax	\$ (110,422)	\$ (258,064)

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (403)	\$ (118,067)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	111,018	156,049
Equity in earnings of unconsolidated joint ventures	(25,263)	(23,924)
Distribution of earnings from unconsolidated joint ventures	39,370	42,213
Non-cash stock compensation	21,500	36,017
Prepayment penalty on unsecured senior notes		55,639
Excess tax benefit from share-based payment	(3,324)	(2,526)
Foreign currency translation	(54,312)	(14,546)
Write-off of debt issuance costs		8,997
Loss on disposal activities	41,053	
Pension curtailment and settlement gains	(7,818)	
Other noncash	2,892	2,060
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	29,119	349,148
Prepaid expenses and other assets	(6,075)	39,415
Accounts payable	53,522	(58,274)
Accrued expenses and other current liabilities	(140,765)	(163,801)
Billings in excess of costs on uncompleted contracts	18,068	(13,501)
Other long-term liabilities	(527)	(12,257)
Net cash provided by operating activities	78,055	282,642
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for business acquisitions, net of cash acquired		(3,277,111)
Proceeds from disposal of businesses	37,567	
Net investment in unconsolidated joint ventures	(7,724)	(9,127)
Proceeds from sales of investments	11,201	13,036
Purchases of investments	(214)	(21,092)
Payments for capital expenditures, net of disposals	(843)	(25,070)
Net cash provided by (used in) investing activities	39,987	(3,319,364)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	1,222,663	3,858,648
Repayments of borrowings under credit agreements	(1,304,882)	(2,053,648)
Issuance of unsecured senior notes		1,600,000
Prepayment penalty on unsecured senior notes		(55,639)
Cash paid for debt and equity issuance costs	(1,178)	(86,249)
Proceeds from issuance of common stock	6,894	3,645
Proceeds from exercise of stock options	3,013	2,383
Payments to repurchase common stock	(17,343)	(10,957)
Excess tax benefit from share-based payment	3,324	2,526
Net distributions to noncontrolling interests	(37,785)	(34,674)
Other financing activities	(12,950)	(19,961)
Net cash (used in) provided by financing activities	(138,244)	3,206,074

Edgar Filing: AECOM - Form 10-Q

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,647)	(8,892)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,849)	160,460
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	683,893	574,188
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 658,044	\$ 734,648
NON-CASH INVESTING AND FINANCING ACTIVITY		
Common stock issued in acquisitions	\$	\$ 1,554,912
Debt assumed from acquisitions	\$	\$ 567,656

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

Effective January 5, 2015, the official name of the Company changed from AECOM Technology Corporation to AECOM. The accompanying consolidated financial statements of AECOM (the Company) are unaudited and, in the opinion of management, include all adjustments, including all normal recurring items necessary for a fair statement of the Company's financial position and results of operations for the periods presented. All inter-company balances and transactions are eliminated in consolidation.

The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2015 (the Annual Report). The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Certain immaterial reclassifications were made to the prior year to conform to current year presentation.

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

The results of operations for the three months ended December 31, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2016.

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

2. New Accounting Pronouncements and Changes in Accounting

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

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

In April 2015, the FASB issued new accounting guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The guidance requires retrospective application and represents a change in accounting principle. The Company does not expect the guidance to have a material impact on its consolidated financial statements, as the application of this guidance affects classification only. This guidance will be effective for the Company's fiscal year beginning October 1, 2017.

In April 2015, the FASB issued new accounting guidance which provides the use of a practical expedient that permits the entity to measure defined benefit plans assets and obligations using the month-end date that is closest to the entity's fiscal year-end date and apply that practical expedient consistently from year to year. Should the Company elect to adopt this guidance, it does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements. This guidance will be effective for the Company's fiscal year beginning October 1, 2017.

In September 2015, the FASB issued new accounting guidance which simplifies the accounting for measurement-period adjustments in connection with business combinations. The new guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment amount is determined, and therefore eliminates the requirement to retrospectively account for the adjustment in prior periods presented. This guidance was effective for fiscal years and interim periods beginning after December 15, 2015, and was to be applied prospectively to measurement-period adjustments that occur after the effective date. Early adoption was permitted. The Company early adopted this guidance for the quarter ended December 31, 2015, which did not have a material impact on the Company's financial statements.

Table of Contents

In the first quarter of fiscal 2016, the Company adopted new accounting guidance which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This adoption did not have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued new accounting guidance which simplifies the presentation of deferred income taxes. This guidance requires that deferred tax assets and liabilities be classified as non-current in the balance sheet. The Company has elected early adoption of this standard on a prospective basis in the first quarter of fiscal 2016. This resulted in a reclassification of the Company's net current deferred tax asset and net current deferred tax liability to the net non-current deferred tax asset and to its net non-current deferred tax liability in the Company's consolidated balance sheet as of December 31, 2015. Prior periods were not retrospectively adjusted. The adoption of this guidance had no impact on the Company's consolidated results of income or comprehensive income.

3. Business Acquisitions, Goodwill and Intangible Assets

On October 17, 2014, the Company completed the acquisition of the U.S. headquartered URS Corporation (URS), an international provider of engineering, construction, and technical services, by purchasing 100% of the outstanding shares of URS common stock. The purpose of the acquisition was to further diversify the Company's market presence and accelerate the Company's strategy to create an integrated delivery platform for customers. The Company paid total consideration of approximately \$2.3 billion in cash and issued approximately \$1.6 billion of AECOM common stock to the former stockholders and certain equity award holders of URS. In connection with the acquisition, the Company also assumed URS's senior notes totaling \$1.0 billion, and upon the occurrence of a change in control of URS, the URS senior noteholders had the right to redeem their notes at a cash price equal to 101% of the principal amount of the notes. Accordingly, on October 24, 2014, the Company purchased \$0.6 billion of URS's senior notes from the noteholders. See also Note 7, Debt. Additionally, the Company repaid in full URS's \$0.6 billion 2011 term loan and \$0.1 billion of URS's revolving line of credit.

The following summarizes the estimated fair values of URS assets acquired and liabilities assumed (in millions), as of the acquisition date:

Cash and cash equivalents	\$ 284.9
Accounts receivable	2,512.8
Prepaid expenses and other current assets	421.0
Property and equipment	570.9
Identifiable intangible assets:	
Customer relationships, contracts and backlog	969.2
Tradename	7.8
Total identifiable intangible assets	977.0
Goodwill	3,992.0
Other non-current assets	329.8
Accounts payable	(656.7)
Accrued expenses and other current liabilities	(1,344.8)
Billings in excess of costs on uncompleted contracts	(397.8)
Current portion of long-term debt	(47.4)
Other long-term liabilities	(393.6)
Pension benefit obligations	(406.3)
Long-term debt	(520.2)

Edgar Filing: AECOM - Form 10-Q

Noncontrolling interests		(201.0)
Net assets acquired	\$	5,120.6

Backlog and customer relationships represent the fair value of existing contracts and the underlying customer relationships, and have lives ranging from 1 to 11 years (weighted average lives of approximately 3 years). Other intangible assets primarily consist of the fair value of office leases. Goodwill recognized largely results from a substantial assembled workforce, which does not qualify for separate recognition, as well as expected future synergies from combining operations. Accrued expenses and other current liabilities above include URS project liabilities and approximately \$240 million as of the acquisition date, related to estimated URS legal settlements and uninsured legal damages; see Note 14, Commitments and Contingencies, which includes legal matters related to former URS affiliates.

Table of Contents

The following presents summarized unaudited pro forma operating results assuming that the Company had acquired URS at October 1, 2013. These pro forma operating results are presented for illustrative purposes only and are not indicative of the operating results that would have been achieved had the related events occurred.

	Three Months Ended Dec 31, 2014 (in millions)	
Revenue	\$	4,546
Income from continuing operations		163
Net income		44
Net income attributable to AECOM		21
Net income attributable to AECOM per share:		
Basic	\$	0.14
Diluted	\$	0.14

Amortization of intangible assets relating to URS was \$59.0 million and \$99.0 million during the three months ended December 31, 2015 and 2014, respectively. Additionally, included in equity in earnings of joint ventures and noncontrolling interests was intangible amortization expense of \$9.7 million and (\$5.7) million, respectively, during the three months ended December 31, 2015 and \$8.1 million and (\$9.5) million, respectively, during the three months ended December 31, 2014 related to joint venture fair value adjustments.

Billings in excess of costs on uncompleted contracts includes a margin fair value liability associated with long-term contracts acquired in connection with the acquisition of URS on October 17, 2014. This margin fair value liability was \$148.1 million at the acquisition date and its carrying value was \$36.0 million at December 31, 2015, and is recognized as revenue on a percentage-of-completion basis as the applicable projects progress. The Company anticipates the remaining liability will be recognized as revenue over five years, with the majority over the first two years. Revenue and the related income from operations related to the margin fair value liability recognized during the three months ended December 31, 2015 and 2014 was \$15.1 million and \$24.4 million, respectively.

Acquisition and integration expenses in the accompanying consolidated statements of operations comprised of the following (in millions):

	Three months ended Dec 31, 2015		2014	
Severance and personnel costs	\$	6.6	\$	109.3
Professional service, real estate-related, and other expenses		34.4		29.2
Total	\$	41.0	\$	138.5

Included in severance and personnel costs for the three months ended December 31, 2015 and 2014 was \$6.6 million and \$36.6 million of severance expense, respectively, of which \$4.3 million and \$4.6 million was paid as of December 31,

2015 and 2014, respectively. All acquisition and integration expenses are classified within corporate, as presented in Note 15.

Interest expense in the accompanying consolidated statements of operations for the three months ended December 31, 2015 included acquisition related financing expenses of \$4.1 million. Interest expense in the consolidated statements of operations for the three months ended December 31, 2014 included acquisition related financing expenses of \$68.0 million, which primarily consisted of a \$55.6 million penalty from the prepayment of the Company's unsecured senior notes.

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

Net favorable adjustments from acquisition related project and legal matters resulted in \$19.7 million of income during the three months ended December 31, 2015 (\$15.4 million, net of noncontrolling interests).

Edgar Filing: AECOM - Form 10-Q

Table of Contents

The changes in the carrying value of goodwill by reportable segment for the three months ended December 31, 2015 and 2014 were as follows:

	September 30, 2015	Post- Acquisition Adjustments	Foreign Exchange Impact (in millions)	Disposed	December 31, 2015
Design and Consulting Services	\$ 3,163.3	\$ (10.4)	\$ (9.5)	\$	\$ 3,143.4
Construction Services	918.5	(19.8)	(10.7)	(11.3)	876.7
Management Services	1,738.9		(5.8)		1,733.1
Total	\$ 5,820.7	\$ (30.2)	\$ (26.0)	\$ (11.3)	\$ 5,753.2

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 31, 2015 and September 30, 2015, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	Gross Amount	December 31, 2015 Accumulated Amortization	Intangible Assets, Net (in millions)	Gross Amount	September 30, 2015 Accumulated Amortization	Intangible Assets, Net	Amortization Period (years)
Backlog and customer relationships	\$ 1,222.0	\$ (630.4)	\$ 591.6	\$ 1,224.7	\$ (565.3)	\$ 659.4	1 - 11
Trademark / tradename	16.4	(16.4)		16.4	(16.4)		0.3 - 2
Total	\$ 1,238.4	\$ (646.8)	\$ 591.6	\$ 1,241.1	\$ (581.7)	\$ 659.4	

Amortization expense of acquired intangible assets included within cost of revenue was \$65.1 million and \$105.9 million for the three months ended December 31, 2015 and 2014, respectively. The following table presents estimated amortization expense of intangible assets for the remainder of fiscal 2016 and for the succeeding years:

Fiscal Year	(in millions)
2016 (nine months remaining)	\$ 128.4
2017	93.5
2018	79.3
2019	73.9
2020	61.8
Thereafter	154.7
Total	\$ 591.6

4. Accounts Receivable Net

Net accounts receivable consisted of the following:

Edgar Filing: AECOM - Form 10-Q

	December 31, 2015	(in millions)	September 30, 2015
Billed	\$	2,329.5	\$ 2,426.2
Unbilled		2,145.9	2,099.8
Contract retentions		399.9	379.6
Total accounts receivable gross		4,875.3	4,905.6
Allowance for doubtful accounts		(67.4)	(64.1)
Total accounts receivable net	\$	4,807.9	\$ 4,841.5

Billed accounts receivable represents amounts billed to clients that have yet to be collected. Unbilled accounts receivable represents contract revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 31, 2015 and September 30, 2015 are expected to be billed and collected within twelve months. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, or other contractual conditions, or upon the completion of a project. These retention agreements vary from project to project and could be outstanding for several months or years.

Table of Contents

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, 2015 and September 30, 2015.

The Company sold trade receivables to financial institutions, of which \$266.0 million and \$240.8 million were outstanding as of December 31, 2015 and September 30, 2015, respectively. The Company does not retain financial or legal obligations for these receivables that would result in material losses. The Company's ongoing involvement is limited to the remittance of customer payments to the financial institutions with respect to the sold trade receivables.

5. Joint Ventures and Variable Interest Entities

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

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

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 ventures economic performance, including powers granted to the joint venture's program manager, powers contained in the joint venture governing board and, to a certain extent, a company's economic interest in the joint venture. The Company analyzes its joint ventures and classifies them as either:

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

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

Contractually required support provided to the Company's joint ventures is further discussed in Note 14.

Table of Contents

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

	December 31, 2015	September 30, 2015
	(in millions)	
Current assets	\$ 755.0	\$ 727.8
Non-current assets	271.8	282.8
Total assets	\$ 1,026.8	\$ 1,010.6
Current liabilities	\$ 459.5	\$ 441.5
Non-current liabilities	0.1	0.2
Total liabilities	459.6	441.7
Total AECOM equity	370.4	354.7
Noncontrolling interests	196.8	214.2
Total owners' equity	567.2	568.9
Total liabilities and owners' equity	\$ 1,026.8	\$ 1,010.6

Total revenue of the consolidated joint ventures was \$485.2 million and \$545.3 million for the three months ended December 31, 2015 and 2014, 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, 2015	September 30, 2015
	(in millions)	
Current assets	\$ 1,285.2	\$ 1,200.7
Non-current assets	548.2	527.3
Total assets	\$ 1,833.4	\$ 1,728.0
Current liabilities	\$ 1,098.7	\$ 936.7
Non-current liabilities	105.6	87.0
Total liabilities	1,204.3	1,023.7
Joint ventures' equity	629.1	704.3
Total liabilities and joint ventures' equity	\$ 1,833.4	\$ 1,728.0
AECOM's investment in joint ventures	\$ 314.4	\$ 321.6

	Three Months Ended	
	December 31, 2015	December 31, 2014
	(in millions)	
Revenue	\$ 1,228.1	\$ 1,081.3
Cost of revenue	1,169.2	1,027.4
Gross profit	\$ 58.9	\$ 53.9
Net income	\$ 48.9	\$ 48.3

Edgar Filing: AECOM - Form 10-Q

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

	Three Months Ended	
	December 31,	December 31,
	2015	2014
	(in millions)	
Pass through joint ventures	\$ 4.8	\$ 6.4
Other joint ventures	20.4	17.5
Total	\$ 25.2	\$ 23.9

Table of Contents**6. Pension Benefit Obligations**

In the U.S., the Company sponsors various qualified defined benefit pension plans. The legacy AECOM defined benefit plan covers substantially all permanent AECOM employees hired as of March 1, 1998. The other recently acquired plans cover employees of URS and the Hunt Corporation at the time of their acquisition. Benefits under these plans generally are based on the employee's years of creditable service and compensation. All defined benefit plans are closed to new participants and all defined benefit plans, except the URS Federal Services, Inc. Employees Retirement Plan, have frozen accruals as of December 31, 2015. The Company adopted an amendment to freeze benefits under the URS Federal Services, Inc. Employees Retirement Plan during the three months ended December 31, 2015, which resulted in the curtailment gain listed below. The Company also sponsors various non-qualified plans in the U.S.; all of these plans are frozen. Outside the U.S., the Company sponsors various pension plans, which are appropriate to the country in which the Company operates, some of which are government mandated.

The following table details the components of net periodic cost for the Company's pension plans for the three months ended December 31, 2015 and 2014:

	Three Months Ended			
	December 31, 2015		December 31, 2014	
	U.S.	Int'l	U.S.	Int'l
	(in millions)			
Components of net periodic (benefit) cost:				
Service costs	\$ 1.8	\$ 0.3	\$ 1.5	\$ 0.3
Interest cost on projected benefit obligation	5.7	10.5	6.4	11.3
Expected return on plan assets	(7.8)	(12.8)	(6.7)	(11.9)
Amortization of prior service cost		(0.1)		(0.1)
Amortization of net loss	1.0	1.4	1.1	1.5
Curtailment gain recognized	(6.8)			
Settlement (gain) loss recognized	(1.0)	0.1		0.4
Net periodic (benefit) cost	\$ (7.1)	\$ (0.6)	\$ 2.3	\$ 1.5

The total amounts of employer contributions paid for the three months ended December 31, 2015 were \$5.7 million for U.S. plans and \$5.4 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2016 are \$9.2 million for U.S. plans and \$15.5 million for non-U.S. plans. The aggregate pension deficit was \$550.9 million and \$572.6 million as of December 31, 2015 and September 30, 2015, respectively. The long-term portion of the aggregate pension deficit was \$544.1 million and \$565.3 million as of December 31, 2015 and September 30, 2015, respectively.

7. Debt

Debt consisted of the following:

Edgar Filing: AECOM - Form 10-Q

	December 31, 2015	(in millions)	September 30, 2015
2014 Credit Agreement	\$ 2,353.7		\$ 2,414.3
2014 Senior Notes	1,600.0		1,600.0
URS Senior Notes	428.9		429.4
Other debt	140.2		163.2
Total debt	4,522.8		4,606.9
Less: Current portion of debt and short-term borrowings	(156.4)		(160.4)
Long-term debt, less current portion	\$ 4,366.4		\$ 4,446.5

The following table presents, in millions, scheduled maturities of the Company's debt as of December 31, 2015:

Fiscal Year	
2016 (nine months remaining)	\$ 119.5
2017	346.7
2018	125.2
2019	86.0
2020	1,505.2
Thereafter	2,340.2
Total	\$ 4,522.8

Table of Contents

2014 Credit Agreement

In connection with the acquisition of URS, on October 17, 2014, the Company entered into a new credit agreement (Credit Agreement) consisting of (i) a term loan A facility in an aggregate principal amount of \$1.925 billion, (ii) a term loan B facility in an aggregate principal amount of \$0.76 billion, (iii) a revolving credit facility in an aggregate principal amount of \$1.05 billion, and (iv) an incremental performance letter of credit facility in an aggregate principal amount of \$500 million subject to terms outlined in the Credit Agreement. These facilities under the Credit Agreement may be increased by an additional amount of up to \$500 million. The Credit Agreement replaced the Second Amended and Restated Credit Agreement, dated as of June 7, 2013, and the Fourth Amended and Restated Credit Agreement, dated as of January 29, 2014, which such prior facilities were terminated and repaid in full on October 17, 2014. In addition, the Company paid in full, including a pre-payment penalty of \$55.6 million, its unsecured senior notes (5.43% Series A Notes due July 2020 and 1.00% Series B Senior Discount Notes due July 2022). The new Credit Agreement matures on October 17, 2019 with respect to the revolving credit facility, the term loan A facility, and the incremental performance letter of credit facility. The term loan B facility matures on October 17, 2021. Certain subsidiaries of the Company (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers' obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of certain conditions specified in the Credit Agreement and Security Agreement.

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

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

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

Under the Credit Agreement, the Company is subject to a maximum consolidated leverage ratio and minimum interest coverage ratio at the end of each fiscal quarter beginning with the quarter ended on March 31, 2015. The Company's Consolidated Leverage Ratio was 4.7 at December 31, 2015. As of December 31, 2015, the Company was in compliance with the covenants of the Credit Agreement.

At December 31, 2015 and September 30, 2015, outstanding standby letters of credit totaled \$98.6 million and \$92.5 million, respectively, under its revolving credit facilities. As of December 31, 2015 and September 30, 2015, the Company had \$951.4 million and \$947.6 million, respectively, available under its revolving credit facility.

2014 Senior Notes

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

As of December 31, 2015, the estimated fair market value of the 2014 Senior Notes was approximately \$822.0 million for the 2022 Notes and \$812.0 million for the 2024 Notes. The fair value of the Notes as of December 31, 2015 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of its Notes.

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

Table of Contents

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

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

The Company was in compliance with the covenants relating to the Notes as of December 31, 2015.

URS Senior Notes

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

As of December 31, 2015, the estimated fair market value of the URS Senior Notes was approximately \$179.2 million for the 2017 URS Senior Notes and \$223.7 million for the 2022 URS Senior Notes. The carrying value of the URS Senior Notes on the Company's Consolidated Balance Sheets as of December 31, 2015 was \$181.5 million for the 2017 URS Senior Notes and \$247.4 million for the 2022 URS Senior Notes. The fair value of the Company's URS Senior Notes as of December 31, 2015 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the URS Senior Notes.

As of December 31, 2015, the Company was in compliance with the covenants relating to the URS Senior Notes.

Other Debt

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. The Company's unsecured credit facilities are primarily used for standby letters of credit issued for payment of performance guarantees. At December 31, 2015 and September 30, 2015, these outstanding standby letters of credit totaled \$362.6 million and \$344.0 million, respectively. As of December 31, 2015, the Company had \$394.8 million available under these unsecured credit facilities.

Effective Interest Rate

The Company's average effective interest rate on its total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2015 and 2014 was 4.2% and 4.0%, respectively.

8. Derivative Financial Instruments and Fair Value Measurements

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

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

Table of Contents***Cash Flow Hedges***

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

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, 2015		Expiration Date
		Fixed Rate	
\$ 300.0	300.0	1.63%	June 2018
	300.0	1.54%	September 2018

Notional Amount (in millions)	September 30, 2015		Expiration Date
		Fixed Rate	
\$ 300.0	300.0	1.63%	June 2018
	300.0	1.54%	September 2018

The notional principal of outstanding foreign currency forward contracts to purchase Australian dollars (AUD) with U.S. dollars was AUD 85.6 million (or approximately \$64.3 million) and AUD 98.1 million (or \$74.1 million) at December 31, 2015 and September 30, 2015, respectively.

Other Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts which are not designated as accounting hedges to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. Gains and losses on these contracts were not material for the three months ended December 31, 2015 and 2014.

Fair Value Measurements

The Company's non-pension financial assets and liabilities recorded at fair values relate to derivative instruments and were not material at December 31, 2015 or 2014.

See Note 13 for accumulated balances and reporting period activities of derivatives related to reclassifications out of accumulated other comprehensive income or loss for the three months ended December 31, 2015 and 2014. Amounts recognized in accumulated other comprehensive loss from the Company's foreign currency contracts were immaterial for all periods presented. Amounts reclassified from accumulated other comprehensive loss into income from the foreign currency contracts were immaterial for all periods presented. Additionally, there were no losses recognized in income due to amounts excluded from effectiveness testing from the Company's interest rate swap agreements.

During the year ended September 30, 2015 and 2014, the Company entered into two contingent consideration arrangements in connection with business acquisitions. Under the arrangements, the Company agreed to pay cash to the sellers if certain financial performance thresholds are achieved in the future. The fair value of the contingent consideration liability as of December 31, 2015 and September 30, 2015 was \$39 million and \$39 million, respectively, and is a Level 3 fair value measurement recorded within other accrued liabilities. It was valued based on estimated future net cash flows. After the initial recording of this liability as a part of purchase accounting, there were no material subsequent changes in fair value through December 31, 2015. Any future changes in the fair value of this contingent consideration liability will be recognized in earnings during the applicable period.

[Table of Contents](#)**9. Share-based Payments**

The fair value of the Company's employee stock option awards is estimated on the date of grant. The expected term of awards granted represents the period of time the awards are expected to be outstanding. The risk-free interest rate is based on U.S. Treasury bond rates with maturities equal to the expected term of the option on the grant date. The Company uses historical data as a basis to estimate the probability of forfeitures.

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

	2015		2014	
	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	1.3	\$ 28.26	1.6	\$ 27.69
Options granted				
Options exercised	(0.2)	23.94	(0.1)	26.24
Options forfeited or expired				
Outstanding at December 31	1.1	28.92	1.5	27.75
Vested and expected to vest in the future as of December 31	1.1	\$ 28.92	1.5	\$ 27.75

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 and vesting over a three-year period. Additionally, the Company issues restricted stock units to employees which are earned based on service conditions. The grant date fair value of PEP awards and restricted stock unit awards is that day's closing market price of the Company's common stock. The weighted average grant date fair value of PEP awards were \$29.92 and \$32.38 during the three months ended December 31, 2015 and 2014, respectively. The weighted average grant date fair value of restricted stock unit awards were \$29.92 and \$31.06 during the three months ended December 31, 2015 and 2014, respectively. Included in the restricted stock unit grants during the three months ended December 31, 2014 were 2.6 million restricted stock units with a grant date fair value of \$30.04 that were converted from unvested URS service based restricted stock awards assumed by the Company in connection with the acquisition of URS. Total compensation expense related to share-based payments was \$21.5 million and \$62.3 million during the three months ended December 31, 2015 and 2014, respectively. Included in total compensation expense during the three months ended December 31, 2014 was \$43.9 million related to the settlement of accelerated URS equity awards with \$17.6 million of Company stock and \$26.3 million in cash, which was classified as acquisition and integration expense. Unrecognized compensation expense related to total share-based payments outstanding was \$176.4 million and \$115.5 million as of December 31, 2015 and September 30, 2015, respectively, to be recognized on a straight-line basis over the awards' respective vesting periods which are generally three years.

Cash flow 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 \$3.3 million and \$2.5 million for the three months ended December 31, 2015 and 2014, respectively, have been classified as financing cash inflows in the Consolidated Statements of Cash Flows.

10. Income Taxes

Edgar Filing: AECOM - Form 10-Q

The Company's effective tax rate from continuing operations was 62.9% and 9.4% for the three months ended December 31, 2015 and 2014, respectively. The most significant items contributing to the difference between the statutory U.S. federal income tax rate of 35% and the Company's effective tax rate for the three-month period ended December 31, 2015 were the recognition of a discrete benefit of \$10.3 million related to the retroactive extension of previously expired research and development credits and other energy-related incentives enacted during the quarter, partially offset by the impact of current year losses primarily in Canada, South Africa, India, and Germany for which no tax benefit is expected due to valuation allowances of \$4.9 million, and a \$3.5 million discrete expense, net of related valuation allowance, due to the reduction in the United Kingdom statutory income tax rate during the quarter.

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

Table of Contents

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

Generally, the Company does not provide for U.S. taxes or foreign withholding taxes on undistributed earnings from non-U.S. subsidiaries because such earnings are able to and intended to be reinvested indefinitely. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. The Company recorded a deferred tax liability in the amount of \$108.9 million relating to certain foreign subsidiaries for which the undistributed earnings are not intended to be reinvested indefinitely as part of the liabilities assumed in connection with the acquisition of URS on October 17, 2014.

In November 2015, the FASB issued new accounting guidance which simplifies the presentation of deferred income taxes. This guidance requires that deferred tax assets and liabilities be classified as noncurrent in the balance sheet. The Company has elected early adoption of this standard on a prospective basis in the first quarter of 2016. This resulted in a reclassification of the Company's net current deferred tax asset and net current deferred tax liability to the net non-current deferred tax asset and to its net non-current deferred tax liability in the Company's consolidated balance sheet as of December 31, 2015. No prior periods were retrospectively adjusted. The adoption of this guidance had no impact on the Company's consolidated results of income or comprehensive income.

11. Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income available for common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income attributable to AECOM by the weighted average number of common shares outstanding and potential common stock equivalent shares for the period. The Company includes as potential common shares the weighted average dilutive effects of outstanding stock options and restricted stock units using the treasury stock method. For the three months ended December 31, 2015 and 2014, options excluded from the calculation of potential common shares were not significant. The computation of diluted loss per share for the three months ended December 31, 2015 and 2014 excludes 1.2 million and 2.0 million of potential common shares, respectively, due to their antidilutive effect.

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

	Three Months Ended	
	December 31, 2015	December 31, 2014
	(in millions)	
Denominator for basic earnings per share	153.6	141.9
Potential common shares		
Denominator for diluted earnings per share	153.6	141.9

12. Other Financial Information

Edgar Filing: AECOM - Form 10-Q

Accrued expenses and other current liabilities consist of the following:

	December 31, 2015	(in millions)	September 30, 2015
Accrued salaries and benefits	\$ 711.9		\$ 852.2
Accrued contract costs	997.3		993.1
Other accrued expenses	312.5		322.5
	\$ 2,021.7		\$ 2,167.8

Accrued contract costs above include balances related to professional liability accruals of \$231.0 million and \$239.2 million as of December 31, 2015 and September 30, 2015, respectively. The remaining accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees. Liabilities recorded related to accrued contract losses were not material as of December 31 and September 30, 2015. The Company did not have material revisions to estimates for contracts where revenue is recognized using the percentage-of-completion method during the three months ended December 31, 2015.

Table of Contents**13. Reclassifications out of Accumulated Other Comprehensive Loss**

The accumulated balances and reporting period activities for the three months ended December 31, 2015 and 2014 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, 2015	\$ (204.0)	\$ (420.1)	\$ (11.0)	\$ (635.1)
Other comprehensive (loss) income before reclassification	(1.0)	(96.1)	4.0	(93.1)
Amounts reclassified from accumulated other comprehensive loss:				
Actuarial losses, net of tax	1.7			1.7
Cash flow hedge losses, net of tax			1.3	1.3
Balances at December 31, 2015	\$ (203.3)	\$ (516.2)	\$ (5.7)	\$ (725.2)

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Loss on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2014	\$ (217.0)	\$ (137.8)	\$ (1.8)	\$ (356.6)
Other comprehensive income (loss) before reclassification	6.2	(126.0)	(1.5)	(121.3)
Amounts reclassified from accumulated other comprehensive loss:				
Actuarial losses, net of tax	1.8			1.8
Cash flow hedge losses, net of tax			0.4	0.4
Balances at December 31, 2014	\$ (209.0)	\$ (263.8)	\$ (2.9)	\$ (475.7)

14. Commitments and Contingencies

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

The Company and its affiliates are involved in various investigations, audits, claims and lawsuits arising in the normal course of business. The Company is not always aware that it or its affiliates are under investigation, or of the status in such matters, but the Company is currently aware of certain pending investigations, including the matters described below. In the opinion of management, based on current information and discussions with counsel, with the exception of matters noted below, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's consolidated balance sheet or statements of operations 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, 2015, the Company was contingently liable in the amount of approximately \$461.2 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for payment of 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. In addition, in connection with the investment activities of AECOM Capital, the Company provides guarantees of certain obligations, including guarantees for completion of projects, repayment of debt, environmental indemnity obligations and acts of willful misconduct. The guarantees have various expiration dates. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties. Generally, under joint venture arrangements, if a partner is financially unable to complete its share of the contract, the other partner(s) will be required to complete those activities. The Company does not expect that these guarantees will have a material adverse effect on its consolidated balance sheet or statements of operations or cash flows.

Table of Contents

USAID Egyptian Projects

In November 2004, the federal government filed a civil action in Idaho federal district court against Washington Group International, a Delaware company (WGI), an affiliate of URS, which the Company acquired on October 17, 2014, and two of WGI's subcontractors, asserting violations under the Federal False Claims Act and Federal Foreign Assistance Act of 1961 for failure to comply with U.S. Agency for International Development (USAID) source, origin, and nationality regulations in connection with five USAID-financed Egyptian projects beginning in the early 1990s. The federal government sought a refund of the approximately \$373 million paid to WGI under the contracts for the five completed and fully operational projects as well as damages and civil penalties (including doubling and trebling of damages) for violation of the statutes. In March 2005, WGI filed motions in Idaho federal district court and the United States Bankruptcy Court in Nevada contending that the federal government's Idaho federal district court action was barred under the plan of reorganization approved by the Bankruptcy Court in 2002 when WGI emerged from bankruptcy protection. In 2006, the Idaho federal district court action was stayed pending the bankruptcy-related proceedings. On April 24, 2012, the Bankruptcy Court ruled that the bulk of the federal government's claims under the Federal False Claims and the Federal Foreign Assistance Acts are not barred. On November 7, 2012, WGI appealed the Bankruptcy Court's decision to the Ninth Circuit Bankruptcy Appellate Panel. On August 2, 2013, the Appellate Panel affirmed the Bankruptcy Court's decision. On September 26, 2013, WGI appealed the Appellate Panel's decision to the United States Ninth Circuit Court of Appeals.

On January 5, 2016, WGI and the federal government settled this matter and WGI paid \$9 million for a release of all claims without admitting any liability. This settlement did not have a material impact to the Company's financial results.

DOE Deactivation, Demolition, and Removal Project

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

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

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

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

Canadian Pipeline Contract

In January 2010, a pipeline owner filed an action in the Court of Queen's Bench of Alberta, Canada against Flint Energy Services Ltd. (Flint), an affiliate of URS, as well as against a number of other defendants, alleging that the defendants negligently provided pipe coating and insulation system services, engineering, design services, construction services, and other work, causing damage to and abandonment of the line. The pipeline owner alleges it has suffered approximately C\$45 million in damages in connection with the abandonment and replacement of the pipeline. Flint was the construction contractor on the pipeline project. Other defendants were responsible for engineering and design-services and for specifying and providing the actual pipe, insulation and coating materials used in the line. In January 2011, the pipeline owner served a Statement of Claim on Flint and, in September 2011, Flint filed a Statement of Defense denying that the damages to the coating system of the pipeline were caused by any negligence or breach of contract of Flint. Since 2011, preliminary legal proceedings have occurred and Flint's first expected trial date has been set for April 2016.

Flint disputes the pipeline owner's claims and intends to continue to defend this matter vigorously; however, it cannot provide assurance that it will be successful, in whole or in part, in these efforts. The potential range of loss in excess of the current accrual cannot be reasonably estimated at this time, primarily due to the substantial uncertainty regarding the actual cause of the damage to or loss of the line is disputed; the nature and amount of each individual damage claim against the various defendants; and the uncertainty concerning legal theories and factual bases that the customer may present against all or some of the defendants.

Table of Contents

Waste Isolation Pilot Plant Environmental Incidents

AECOM is a member of Nuclear Waste Partnership, LLC, a joint venture that manages and operates the Waste Isolation Pilot Plant (WIPP), a DOE federal waste repository in New Mexico designed to dispose of low level transuranic (TRU) radioactive waste generated by federal facilities. On February 5, 2014, an underground vehicle fire suspended operations at WIPP. On February 14, 2014, in a separate and unrelated event, a TRU waste container that originated from Los Alamos National Laboratory breached and released low levels of radiological contaminants from the mine at WIPP into the atmosphere. On December 6, 2014, the DOE and Nuclear Waste Partnership received an administrative compliance order and civil penalty of \$17.7 million from the New Mexico Environment Department alleging violations of the Resource Conservation and Recovery Act and the New Mexico Hazardous Waste Act due to WIPP's failure to prevent the underground fire and the radiological release. In addition, disposal operations at WIPP have been suspended until a final recovery plan can be implemented.

On January 22, 2016, Nuclear Waste Partnership, the DOE and the New Mexico Environmental Department executed a settlement agreement resolving this matter in which the DOE agreed to provide future funding for various projects in lieu of any penalty payments. This settlement resulted in a favorable adjustment to income of \$13.2 million (\$10.1 million, net of controlling interests).

Tishman Inquiry

The U.S. Attorney's Office for the Eastern District of New York (USAO) informed the Company's subsidiary Tishman Construction Corporation (TCC) that, in connection with a wage and hour investigation of several New York area contractors, the USAO investigated potential improper overtime payments to union workers on projects managed by TCC and other contractors in New York dating back to 1999. TCC was acquired by the Company in 2010.

As previously reported in the Company's Form 8-K filed on December 11, 2015, the USAO announced on December 10, 2015 that Tishman Construction agreed to settle this matter by entering into a deferred prosecution agreement, by offering restitution to its clients of approximately \$5.6 million, and by paying approximately \$14.6 million in fines over a two-year period to the federal government. This settlement did not have a material impact to the Company's financial results. TCC did not profit from any of the funds in question.

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 the client's project to design, build, finance and operate a tolled motorway tunnel in Australia. To fund the motorway's design and construction, the client formed certain special purpose vehicles (SPVs) 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 SPVs went into insolvency administrations in February 2011.

KordaMentha, the receivers for the SPVs (the RCM Applicants), caused a lawsuit to be filed against AECOM Australia by the RCM Applicants in the Federal Court of Australia on May 14, 2012. Portigon AG (formerly WestLB AG), one of the lending banks to the SPVs, filed a lawsuit in the Federal Court of Australia against AECOM Australia on May 18, 2012. Separately, 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.

All of the lawsuits claim damages that purportedly resulted from AECOM Australia's role in connection with the above described traffic forecast. The class action applicants claim that they represent investors who acquired approximately \$155 million Australian dollars of securities. On July 10, 2015, AECOM Australia, the RCM Applicants and Portigon AG entered into a Deed of Release settling the respective lawsuits for \$205 million (U.S. dollars). This settlement did not have a material impact to the Company's financial results.

AECOM Australia disputes the claimed entitlements to damages asserted by the remaining class action lawsuit and will continue to defend this matter vigorously. AECOM Australia cannot provide assurance that it will be successful in these efforts. The potential range of loss in excess of the current accrual cannot be reasonably estimated at this time, primarily due to the fact that the matter involves unique and significant issues pertaining to the plaintiffs' reliance on AECOM Australia's reports, the quantum of damages that may be asserted against AECOM Australia, and numerous proportionate liability claims against the primary and third party defendants.

Table of Contents

DOE Hanford Nuclear Reservation

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

- **Waste Treatment Plant government investigation:** The federal government is conducting an investigation into the Company's affiliate, URS Energy & Construction, a subcontractor on the Waste Treatment Plant, regarding contractual compliance and various technical issues in the design, development and construction of the Waste Treatment Plant.
- **Waste Treatment Plant whistleblower and employment claims:** Two former employees have each filed employment related claims against the Company's affiliate, URS Energy & Construction, seeking restitution for alleged retaliation and wrongful termination. In August 2015, URS Energy & Construction settled one of these former employees' whistleblower and employment related claims for \$4.1 million.
- **Tank Farms government investigation:** The federal government is conducting an investigation regarding the time keeping of employees at the Company's joint venture, Washington River Protection Solutions LLC, when the joint venture took over as the prime contractor from another federal contractor.
- **Tank Farms government investigation:** The federal government was conducting an investigation into the circumstances surrounding the response of the Company's joint venture, Washington River Protection Solutions LLC, to a leak within the tank farms of the Hanford nuclear reservation. On December 8, 2015, the United States District Court, Eastern District of Washington dismissed this matter.
- **River Corridor litigation:** The federal government has partially intervened in a false claims act complaint filed in the Eastern District of Washington on December 2013 challenging the Company's joint venture, Washington Closure Hanford LLC, and its contracting procedures under the Small Business Act.

URS Energy and Construction, Washington River Protection Solutions LLC and Washington Closure Hanford LLC dispute these investigations and claims and intend to continue to defend these matters vigorously; however, URS Energy and Construction, Washington River Protection Solutions LLC and Washington Closure Hanford LLC cannot provide assurances that they will be successful in these efforts. The potential range of loss in excess of the current accrual

cannot be reasonably estimated at this time, primarily due to the fact that these matters involve complex and unique environmental and regulatory issues; each project site contains multiple parties, including various local, state and federal government agencies; conflicts of law between local, state and federal regulations; substantial uncertainty regarding any alleged damages; and the preliminary stage of the government investigations or litigation.

15. Reportable Segments

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

Table of Contents

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

Reportable Segments:	Design and Consulting Services	Construction Services	Management Services (in millions)	Corporate	Total
Three Months Ended December 31, 2015:					
Revenue	\$ 1,862.1	\$ 1,711.8	\$ 723.8	\$	\$ 4,297.7
Gross profit	79.3	12.9	48.7		140.9
Equity in earnings of joint ventures	3.0	2.7	19.5		25.2
General and administrative expenses				(28.7)	(28.7)
Acquisition and integration expenses				(41.0)	(41.0)
Operating income	82.3	15.6	68.2	(69.7)	96.4
Gross profit as a % of revenue	4.3%	0.8%	6.7%		3.3%

Reportable Segments:	Design and Consulting Services	Construction Services	Management Services (in millions)	Corporate	Total
Three Months Ended December 31, 2014:					
Revenue	\$ 1,891.7	\$ 1,534.1	\$ 784.7	\$	\$ 4,210.5
Gross profit	46.3	35.4	53.1		134.8
Equity in earnings of joint ventures	1.5	5.8	16.6		23.9
General and administrative expenses				(34.3)	(34.3)
Acquisition and integration expenses				(138.5)	(138.5)
Operating income	47.8	41.2	69.7	(172.8)	(14.1)
Gross profit as a % of revenue	2.4%	2.3%	6.8%		3.2%

Reportable Segments:	Design and Consulting Services	Construction Services	Management Services	Corporate	Total
Total assets					
December 31, 2015	\$ 6,895.4	\$ 3,284.8	\$ 2,756.2	\$ 593.0	\$ 13,529.4
September 30, 2015	7,118.2	3,382.4	2,903.9	609.8	14,014.3

16. Condensed Consolidating Financial Information

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

Edgar Filing: AECOM - Form 10-Q

Subsidiary Guarantors to transfer funds to AECOM in the form of cash dividends, loans or advances.

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

Table of Contents**Condensed Consolidating Balance Sheets**

(unaudited in millions)

December 31, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	\$ 2.2	\$ 132.3	\$ 523.5	\$	\$ 658.0
Accounts receivable - net		2,144.1	2,663.8		4,807.9
Intercompany receivable	756.8	149.4	232.4	(1,138.6)	
Prepaid expenses and other current assets	50.9	120.2	215.0		386.1
Income taxes receivable	8.3		36.3		44.6
TOTAL CURRENT ASSETS	818.2	2,546.0	3,671.0	(1,138.6)	5,896.6
PROPERTY AND EQUIPMENT - NET	95.9	230.0	275.9		601.8
DEFERRED TAX ASSETS - NET	48.8		194.0	(117.3)	125.5
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	6,567.1	1,261.8	64.9	(7,893.8)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	0.8	50.3	263.3		314.4
GOODWILL		3,290.3	2,462.9		5,753.2
INTANGIBLE ASSETS - NET		416.9	174.7		591.6
OTHER NON - CURRENT ASSETS	83.1	21.0	142.2		246.3
TOTAL ASSETS	\$ 7,613.9	\$ 7,816.3	\$ 7,248.9	\$ (9,149.7)	\$ 13,529.4
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term debt	\$ 0.8	\$	\$ 2.4	\$	\$ 3.2
Accounts payable	36.8	895.3	972.9		1,905.0
Accrued expenses and other current liabilities	129.0	963.9	928.8		2,021.7
Intercompany payable	87.2	946.2	277.7	(1,311.1)	
Billings in excess of costs on uncompleted contracts		255.6	416.3		671.9
Current portion of long-term debt	105.3	23.1	24.9		153.3
TOTAL CURRENT LIABILITIES	359.1	3,084.1	2,623.0	(1,311.1)	4,755.1
OTHER LONG-TERM LIABILITIES	88.6	301.2	466.6		856.4
DEFERRED TAX LIABILITY - NET		104.3	45.6	(117.3)	32.6
NOTE PAYABLE INTERCOMPANY - NON CURRENT			648.1	(648.1)	
LONG-TERM DEBT	3,852.9	477.9	35.6		4,366.4
TOTAL LIABILITIES	4,300.6	3,967.5	3,818.9	(2,076.5)	10,010.5
TOTAL AECOM STOCKHOLDERS EQUITY	3,313.3	3,848.8	3,225.7	(7,073.2)	3,314.6
Noncontrolling interests			204.3		204.3
TOTAL STOCKHOLDERS EQUITY	3,313.3	3,848.8	3,430.0	(7,073.2)	3,518.9
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 7,613.9	\$ 7,816.3	\$ 7,248.9	\$ (9,149.7)	\$ 13,529.4

Table of Contents**Condensed Consolidating Balance Sheets**

(unaudited - in millions)

September 30, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	\$ 1.3	\$ 162.5	\$ 520.1	\$	\$ 683.9
Accounts receivable net		2,165.5	2,675.9		4,841.4
Intercompany receivable	771.3	187.3	262.7	(1,221.3)	
Prepaid expenses and other current assets	36.7	127.4	224.9		389.0
Income taxes receivable	68.7		12.5		81.2
Deferred tax assets net	36.6		276.9	(62.9)	250.6
TOTAL CURRENT ASSETS	914.6	2,642.7	3,973.0	(1,284.2)	6,246.1
PROPERTY AND EQUIPMENT NET	93.4	240.0	365.9		699.3
DEFERRED TAX ASSETS NET	27.1		7.3	(34.4)	
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	6,739.4	1,343.7	67.4	(8,150.5)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	0.8	73.4	247.4		321.6
GOODWILL		3,291.1	2,529.6		5,820.7
INTANGIBLE ASSETS NET		459.4	200.0		659.4
OTHER NON-CURRENT ASSETS	88.7	26.8	151.7		267.2
TOTAL ASSETS	\$ 7,864.0	\$ 8,077.1	\$ 7,542.3	\$ (9,469.1)	\$ 14,014.3
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term debt	\$ 2.3	\$	\$ 0.5	\$	\$ 2.8
Accounts payable	28.0	834.1	991.9		1,854.0
Accrued expenses and other current liabilities	229.5	1,001.6	936.7		2,167.8
Intercompany payable	119.9	960.3	319.8	(1,400.0)	
Billings in excess of costs on uncompleted contracts		255.7	398.2		653.9
Deferred tax liability net		62.9		(62.9)	
Current portion of long-term debt	105.6	24.5	27.5		157.6
TOTAL CURRENT LIABILITIES	485.3	3,139.1	2,674.6	(1,462.9)	4,836.1
OTHER LONG-TERM LIABILITIES	63.6	299.5	507.6		870.7
DEFERRED TAX LIABILITY NET		122.6	141.9	(34.4)	230.1
NOTE PAYABLE INTERCOMPANY NON CURRENT			669.1	(669.1)	
LONG-TERM DEBT	3,914.0	482.7	49.8		4,446.5
TOTAL LIABILITIES	4,462.9	4,043.9	4,043.0	(2,166.4)	10,383.4
TOTAL AECOM STOCKHOLDERS' EQUITY	3,401.1	4,033.2	3,276.1	(7,302.7)	3,407.7
Noncontrolling interests			223.2		223.2
TOTAL STOCKHOLDERS' EQUITY	3,401.1	4,033.2	3,499.3	(7,302.7)	3,630.9
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,864.0	\$ 8,077.1	\$ 7,542.3	\$ (9,469.1)	\$ 14,014.3

[Table of Contents](#)

Condensed Consolidating Statements of Operations

(unaudited - in millions)

For the three months ended December 31, 2015						
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Revenue	\$	\$ 2,236.3	\$ 2,094.2	\$ (32.8)	\$	4,297.7
Cost of Revenue		2,182.5	2,007.1	(32.8)		4,156.8
Gross Profit		53.8	87.1			140.9
Equity in earnings from subsidiaries	54.9	(40.3)	0.8	(15.4)		
Equity in earnings of joint ventures		4.5	20.7			25.2
General and administrative expenses	(27.6)	(1.1)				(28.7)
Acquisition and integration expenses	(41.0)					(41.0)
(Loss) income from operations	(13.7)	16.9	108.6	(15.4)		96.4
Loss on disposal activity			(41.0)			(41.0)
Other income	0.8	8.9	2.5	(9.2)		3.0
Interest expense	(53.3)	(5.7)	(9.7)	9.2		(59.5)
(Loss) income before income tax (benefit)						
expense	(66.2)	20.1	60.4	(15.4)		(1.1)
Income tax (benefit) expense	(45.8)	18.1	14.2	12.8		(0.7)
Net (loss) income	(20.4)	2.0	46.2	(28.2)		(0.4)
Noncontrolling interest in income of consolidated subsidiaries, net of tax			(20.0)			(20.0)
Net (loss) income attributable to AECOM	\$ (20.4)	\$ 2.0	\$ 26.2	\$ (28.2)	\$	(20.4)

For the three months ended December 31, 2014						
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Revenue	\$	\$ 2,036.7	\$ 2,268.6	\$ (94.8)	\$	4,210.5
Cost of revenue		1,956.5	2,214.1	(94.8)		4,075.8
Gross profit		80.2	54.5			134.7
Equity in earnings from subsidiaries	25.6	0.6	1.4	(27.6)		
Equity in earnings of joint ventures		(2.0)	25.9			23.9
General and administrative expenses	(33.0)	(1.2)				(34.2)
Acquisition and integration expenses	(115.9)	(22.6)				(138.5)
(Loss) income from operations	(123.3)	55.0	81.8	(27.6)		(14.1)
Other income	0.9	8.4	0.9	(7.7)		2.5
Interest expense	(113.4)	(4.7)	(8.3)	7.7		(118.7)
(Loss) income before income tax (benefit)						
expense	(235.8)	58.7	74.4	(27.6)		(130.3)
Income tax (benefit) expense	(96.8)	15.2	3.8	65.6		(12.2)
Net (loss) income	(139.0)	43.5	70.6	(93.2)		(118.1)
Noncontrolling interests in income of consolidated subsidiaries, net of tax			(20.9)			(20.9)
Net (loss) income attributable to AECOM	\$ (139.0)	\$ 43.5	\$ 49.7	\$ (93.2)	\$	(139.0)

Table of Contents**Consolidating Statements of Comprehensive Income (Loss)****(unaudited - in millions)**

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

	For the three months ended December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net (loss) income	\$ (139.0)	\$ 43.5	\$ 70.6	\$ (93.2)	\$ (118.1)
Other comprehensive (loss) income, net of tax:					
Net unrealized loss on derivatives, net of tax	(1.0)				(1.0)
Foreign currency translation adjustments			(128.1)		(128.1)
Pension adjustments, net of tax	0.7		7.3		8.0
Other comprehensive loss, net of tax	(0.3)		(120.8)		(121.1)
Comprehensive (loss) income, net of tax	(139.3)	43.5	(50.2)	(93.2)	(239.2)
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax			(18.9)		(18.9)
Comprehensive (loss) income attributable to AECOM, net of tax	\$ (139.3)	\$ 43.5	\$ (69.1)	\$ (93.2)	\$ (258.1)

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

(unaudited - in millions)

	For the three months ended December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (265.1)	\$ 295.0	\$ 48.1	\$	\$ 78.0
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from disposal of businesses and property			37.6		37.6
Net investment in unconsolidated joint ventures		(0.5)	(7.2)		(7.7)
Net sales of investments			11.0		11.0
Payments for capital expenditures, net of disposals	(5.3)	(9.0)	13.4		(0.9)
Receipts from intercompany notes receivable	7.0	39.7		(46.7)	
Other intercompany investing activities	342.4	21.9		(364.3)	
Net cash used in investing activities	344.1	52.1	54.8	(411.0)	40.0
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings under credit agreements	1,220.7		2.0		1,222.7
Repayments of borrowings under credit agreements	(1,283.8)	(5.8)	(15.3)		(1,304.9)
Cash paid for debt and equity issuance costs	(1.2)				(1.2)
Proceeds from issuance of common stock	6.9				6.9
Proceeds from exercise of stock options	3.0				3.0
Payments to repurchase common stock	(17.3)				(17.3)
Excess tax benefit from share-based payment	3.3				3.3
Net distributions to noncontrolling interests			(37.8)		(37.8)
Other financing activities	(9.7)	(31.7)	28.4		(13.0)
Intercompany notes repayments			(46.7)	46.7	
Other intercompany financing activities		(339.7)	(24.6)	364.3	
Net cash used in financing activities	(78.1)	(377.2)	(94.0)	411.0	(138.3)
EFFECT OF EXCHANGE RATE CHANGES ON CASH			(5.6)		(5.6)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	0.9	(30.1)	3.3		(25.9)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1.3	162.4	520.2		683.9
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2.2	\$ 132.3	\$ 523.5	\$	\$ 658.0

	For the three months ended December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (114.1)	\$ 249.0	\$ 147.7	\$	\$ 282.6

Edgar Filing: AECOM - Form 10-Q

CASH FLOWS FROM INVESTING

ACTIVITIES:

Payments for business acquisitions, net of cash acquired	(3,562.3)	114.1	171.1	(3,277.1)
Net investment in unconsolidated joint ventures		(0.8)	(8.3)	(9.1)
Net purchases of investments	(1.3)		(6.8)	(8.1)
Payments for capital expenditures, net of disposals	(5.9)	(7.5)	(11.7)	(25.1)
Receipts from intercompany notes receivable	32.7	39.7	(72.4)	
Other intercompany investing activities	376.4	40.6	(417.0)	
Net cash used in investing activities	(3,160.4)	186.1	144.3	(489.4)

CASH FLOWS FROM FINANCING

ACTIVITIES:

Proceeds from borrowings under credit agreements	3,811.9	4.4	42.3	3,858.6
Repayments of borrowings under credit agreements	(2,030.5)	(5.4)	(17.7)	(2,053.6)
Issuance of unsecured senior notes	1,600.0			1,600.0
Prepayment penalty on Unsecured Senior Notes	(55.6)			(55.6)
Cash paid for debt and equity issuance costs	(86.2)			(86.2)
Proceeds from issuance of common stock	3.6			3.6
Proceeds from exercise of stock options	2.4			2.4
Payments to repurchase common stock	(11.0)			(11.0)
Excess tax benefit from share-based payment	2.5			2.5
Net distributions to noncontrolling interests			(34.7)	(34.7)
Other financing activities	5.8	(21.5)	(4.2)	(19.9)
Intercompany notes repayments			(72.4)	72.4
Other intercompany financing activities		(381.0)	(36.0)	417.0
Net cash used in financing activities	3,242.9	(403.5)	(122.7)	489.4
EFFECT OF EXCHANGE RATE CHANGES ON CASH			(8.9)	(8.9)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(31.6)	31.6	160.4	160.4
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33.4	85.8	455.0	574.2
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1.8	\$ 117.4	\$ 615.4	\$ 734.6

Table of Contents

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

Forward-Looking Statements

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

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

Overview

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

Our business focuses primarily on providing fee-based planning, consulting, architectural and engineering design services and, therefore, our business is labor and not capital intensive. We derive income from our ability to generate revenue and collect cash from our clients through the billing of our employees' time spent on client projects and our ability to manage our costs.

Edgar Filing: AECOM - Form 10-Q

We report our business through three segments: Design and Consulting Services (DCS), Construction Services (CS), and Management Services (MS). Such segments are organized by the types of services provided, the differing specialized needs of the respective clients, and how we manage the business. We have aggregated various operating segments into our reportable segments based on their similar characteristics, including similar long-term financial performance, the nature of services provided, internal processes for delivering those services, and types of customers.

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

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

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

Table of Contents

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.

Recent commodity price declines have negatively impacted our oil and gas business and have impacted North American oil and gas clients investment decisions for projects with higher breakeven costs resulting in some construction contracts being deferred, suspended or terminated.

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

We expect to benefit from the return on a portion of our AECOM Capital investments in fiscal year 2016. In addition, we disposed of non-core energy-related business, equipment and other assets acquired from URS and recorded a \$41.0 million loss on disposal activities.

Results of Operations

Three months ended December 31, 2015 compared to the three months ended December 31, 2014

Consolidated Results

	December 31, 2015	Three Months Ended December 31, 2014 (in millions)	\$	Change	%
Revenue	\$ 4,297.7	\$ 4,210.5	\$	87.2	2.1%
Cost of revenue	4,156.8	4,075.7		81.1	2.0

Edgar Filing: AECOM - Form 10-Q

Gross profit	140.9	134.8	6.1	4.5
Equity in earnings of joint ventures	25.2	23.9	1.3	5.4
General and administrative expenses	(28.7)	(34.3)	5.6	16.3
Acquisition and integration expenses	(41.0)	(138.5)	97.5	70.4
Income (loss) from operations	96.4	(14.1)	110.5	783.7
Loss on disposals	(41.0)		(41.0)	NM
Other income	3.0	2.6	0.4	15.4
Interest expense	(59.5)	(118.7)	59.2	(49.9)
Loss before income tax benefit	(1.1)	(130.2)	129.1	(99.2)
Income tax benefit	(0.7)	(12.1)	11.4	(94.2)
Net loss	(0.4)	(118.1)	117.7	(99.7)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(20.0)	(20.9)	0.9	4.3
Net loss attributable to AECOM	\$ (20.4)	\$ (139.0)	\$ 118.6	(85.3)%

NM not meaningful

Table of Contents

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

	Three Months Ended	
	December 31, 2015	December 31, 2014
Revenue	100.0%	100.0%
Cost of revenue	96.7	96.8
Gross margin	3.3	3.2
Equity in earnings of joint ventures	0.6	0.6
General and administrative expenses	(0.7)	(0.8)
Acquisition and integration expenses	(1.0)	(3.3)
Income (loss) from operations	2.2	(0.3)
Loss on disposals	(1.0)	0.0
Other income	0.1	0.1
Interest expense	(1.3)	(2.9)
Loss before income tax benefit	0.0	(3.1)
Income tax benefit	0.0	(0.3)
Net loss	0.0	(2.8)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.5)	(0.5)
Net loss attributable to AECOM	(0.5)%	(3.3)%

Revenue

Our revenue for the three months ended December 31, 2015 increased \$87.2 million, or 2.1%, to \$4,297.7 million as compared to \$4,210.5 million for the corresponding period last year. Revenue provided by acquired companies was \$302.0 million for the three months ended December 31, 2015. Excluding the revenue provided by acquired companies, revenue decreased \$214.8 million, or 5.1%, from the three months ended December 31, 2014.

The decrease in revenue, excluding revenue provided by acquired companies, for the three months ended December 31, 2015 was primarily attributable to a decrease in the MS segment of \$152.9 million due to decreased services provided to the U.S. government in the Middle East and decreased services provided from chemical demilitarization projects for the Department of Defense. Additionally, the decrease was due to a decrease in our DCS segment of \$148.8 million, primarily resulting from a negative foreign currency impact of \$80 million from the strengthening of the U.S. dollar against the Australian and Canadian dollars and the British pound. These decreases were offset by an \$86.9 million increase in the CS reportable segment primarily from construction management services provided on high-rise buildings in the city of New York.

In the course of providing our services, we routinely subcontract for services and incur other direct costs on behalf of our clients. These costs are passed through to clients and, in accordance with industry practice and GAAP, are included in our revenue and cost of revenue. Because subcontractor and other direct costs can change significantly from project to project and period to period, changes in revenue may not be indicative of business trends. Subcontractor and other direct costs for the quarters ended December 31, 2015 and 2014 were \$2.1 billion and \$1.8 billion, respectively. Subcontractor costs and other direct costs as a percentage of revenue, increased to 48% during the quarter ended December 31, 2015 from 44% during the quarter ended December 31, 2014 due to increased construction of high-rise buildings and sports arenas in our CS reportable segment, as discussed below.

Gross Profit

Our gross profit for the three months ended December 31, 2015 increased \$6.1 million, or 4.5%, to \$140.9 million as compared to \$134.8 million for the corresponding period last year. Gross profit provided by acquired companies was \$0.3 million for the three months ended December 31, 2015. Excluding gross profit provided by acquired companies, gross profit increased \$5.8 million, or 4.3%, from the three months ended December 31, 2014. For the three months ended December 31, 2015, gross profit, as a percentage of revenue, increased to 3.3% from 3.2% in the three months ended December 31, 2014.

The increase in gross profit, excluding gross profit provided by acquired companies for the three months ended December 31, 2015 were primarily due to factors impacting our segments as described below. Net favorable adjustments from acquisition related project and legal matters resulted in \$19.7 million of income during the three months ended December 31, 2015 (\$15.4 million, net of noncontrolling interests).

Table of Contents

Billings in excess of costs on uncompleted contracts includes a margin fair value liability associated with long-term contracts acquired in connection with the acquisition of URS on October 17, 2014. Revenue and the related income from operations related to the margin fair value liability recognized during the three months ended December 31, 2015 was \$15.1 million, compared with \$24.4 million during the three months ended December 31, 2014. This amount is offset by amortization of intangible assets of \$59.0 million during the three months ended December 31, 2015, compared with \$99.0 million during the three months ended December 31, 2014.

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended December 31, 2015 increased \$1.3 million, or 5.4%, to \$25.2 million as compared to \$23.9 million in the corresponding period last year. Equity in earnings of joint ventures provided by acquired companies was \$2.5 million for the three months ended December 31, 2015. Excluding the equity earnings of joint ventures provided by acquired companies, equity earnings of joint ventures decreased \$1.2 million from the three months ended December 31, 2014.

General and Administrative Expenses

Our general and administrative expenses for the three months ended December 31, 2015 decreased \$5.6 million, or 16.3%, to \$28.7 million as compared to \$34.3 million for the corresponding period last year. As a percentage of revenue, general and administrative expenses decreased to 0.7% of revenue for the three months ended December 31, 2015 from 0.8% in the corresponding period last year.

The decrease in our general and administrative expenses is primarily due to cost synergies and reduced personnel costs resulting from the integration of URS.

Acquisition and Integration Expenses

Acquisition and integration expenses were comprised of the following:

	Three months ended	
	December 31, 2015	December 31, 2014
	(in millions)	
Severance and personnel costs	\$ 6.6	\$ 109.3
Professional service, real estate-related, and other expenses	34.4	29.2
Total	\$ 41.0	\$ 138.5

Loss on Disposal Activities

Loss on disposal activities of \$41.0 million in the accompanying Statements of Operations includes losses on the disposition of non-core energy related businesses, equipment and other assets acquired with URS within the Construction Services segment.

Other Income

Other income for the three months ended December 31, 2015 increased \$0.4 million from the three months ended December 31, 2014.

Interest Expense

Our interest expense for the three months ended December 31, 2015 decreased to \$59.5 million as compared to \$118.7 million for the three months ended December 31, 2014.

The decrease in interest expense for the three months ended December 31, 2015 was primarily due to the prior period \$55.6 million penalty upon prepayment of our unsecured senior notes.

Income Tax Benefit

Our income tax benefit for the three months ended December 31, 2015 was \$0.7 million compared to our income tax benefit of \$12.1 million for the three months ended December 31, 2014. Due to nearly breakeven results of pretax loss for the first quarter of 2016, a comparison of the tax benefit and effective tax rates between the first quarter of 2016 and the first quarter of 2015 is not meaningful.

Table of Contents

On December 18, 2015, President Obama signed *The Protecting American from Tax Hikes (PATH) Act* into law. This legislation extended various temporary tax provisions which expired on December 31, 2015, including the permanent extension of the United States federal research credit. We recognized a discrete benefit in the first quarter of \$10.3 million attributable to the retroactive impact of the extended provisions.

Based on a review of positive and negative evidence available to us, we have previously recorded valuation allowances against our deferred tax assets in the United Kingdom, Canada and Australia to reduce them to the amount that in our judgment is more likely than not realizable. As of the first quarter of 2016, valuation allowances remain until further positive evidence is obtained before these valuation allowances can be released.

Given the current and forecasted earnings trend, and coming out of cumulative losses in recent years for some of our legal entities in the United Kingdom, sufficient positive evidence in the form of sustained earnings may become available in the future to release all or a portion of the related valuation allowance in the United Kingdom during 2016. A reversal could result in a significant benefit to tax expense in the quarter released.

Certain operations in Canada and Australia continue to have losses and the associated valuation allowances could be reduced if and when the Company's current and forecast profits trend turns and sufficient evidence exists to support the release of the related valuation allowance. In addition, the Company is continually investigating tax planning strategies that, if prudent and feasible, may be implemented to reduce the related valuation allowances in the future.

Net Income / Loss Attributable to AECOM

The factors described above resulted in net loss attributable to AECOM of \$20.4 million for the three months ended December 31, 2015 as compared to net loss attributable to AECOM of \$139.0 million for the three months ended December 31, 2014.

Results of Operations by Reportable Segment:

Design and Consulting Services

	December 31, 2015	Three Months Ended December 31, 2014 (in millions)	\$	Change	%
Revenue	\$ 1,862.1	\$ 1,891.7	\$	(29.6)	(1.6)%
Cost of revenue	1,782.8	1,845.4		(62.6)	(3.4)
Gross profit	\$ 79.3	\$ 46.3	\$	33.0	71.3%

Edgar Filing: AECOM - Form 10-Q

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

	Three Months Ended	
	December 31,	December 31,
	2015	2014
Revenue	100.0%	100.0%
Cost of revenue	95.7	97.6
Gross profit	4.3%	2.4%

Revenue

Revenue for our DCS segment for the three months ended December 31, 2015 decreased \$29.6 million, or 1.6%, to \$1,862.1 million as compared to \$1,891.7 million for the corresponding period last year. Revenue provided by acquired companies was \$119.2 million for the three months ended December 31, 2015. Excluding revenue provided by acquired companies, revenue decreased \$148.8 million, or 7.9%, from the three months ended December 31, 2014.

The decrease in revenue, excluding revenue provided by acquired companies, for the three months ended December 31, 2015 was primarily attributable to a negative foreign currency impact of \$80 million mostly due to the strengthening of the U.S. dollar against the Australian and Canadian dollars and the British pound, and a decrease in the Americas region of \$30 million across our end markets, including the transportation, water, and environmental markets, due to a decrease in public spending on capital projects.

Gross Profit

Gross profit for our DCS segment for the three months ended December 31, 2015 increased \$33.0 million, or 71.3%, to \$79.3 million as compared to \$46.3 million for the corresponding period last year. Excluding gross profit provided by acquired companies, gross profit increased \$37.7 million, or 81.4%, from the three months ended December 31, 2014. As a percentage of revenue, gross profit increased to 4.3% of revenue for the three months ended December 31, 2015 from 2.4% in the corresponding period last year.

The increase in gross profit and gross profit as a percentage of revenue for the quarter ended December 31, 2015 was primarily attributable to increased cost efficiencies and synergies realized as a result of the acquisition of URS, including decreased office lease expense due to real estate consolidations, and other overhead cost savings.

Table of Contents
Construction Services

	December 31, 2015	Three Months Ended December 31, 2014 (in millions)	\$	Change	%
Revenue	\$ 1,711.8	\$ 1,534.1	\$	177.7	11.6%
Cost of revenue	1,698.9	1,498.7		200.2	13.4
Gross profit	\$ 12.9	\$ 35.4	\$	(22.5)	(63.6)%

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

	Three Months Ended December 31, 2015	December 31, 2014
Revenue	100.0%	100.0%
Cost of revenue	99.2	97.7
Gross profit	0.8%	2.3%

Revenue

Revenue for our CS segment for the three months ended December 31, 2015 increased \$177.7 million, or 11.6%, to \$1,711.8 million as compared to \$1,534.1 million for the corresponding period last year. Revenue provided by acquired companies was \$90.8 million for the three months ended December 31, 2015. Excluding revenue provided by acquired companies, revenue increased \$86.9 million, or 5.7%, from the three months ended December 31, 2014.

The increase in revenue, excluding the impact of revenue provided by acquired companies, for the three months ended December 31, 2015 was primarily attributable to the construction of a residential high-rise buildings in the city of New York and the construction of sports arenas in the Americas. These increases were offset by decreased revenue caused by weak oil and gas trends in the Americas.

Gross Profit

Gross profit for our CS segment for the three months ended December 31, 2015 decreased \$22.5 million, or 63.6%, to \$12.9 million as compared to \$35.4 million for the corresponding period last year. Excluding gross profit provided by acquired companies, gross profit decreased \$22.2 million, or 62.7%, from the three months ended December 31, 2014. As a percentage of revenue, gross profit decreased to 0.8% of revenue for the three months ended December 31, 2015 from 2.3% in the corresponding period last year.

Edgar Filing: AECOM - Form 10-Q

The decrease in gross profit, excluding the impact of gross profit provided by acquired companies, was primarily due to award fees recorded on a power project in the Americas in the prior period.

Management Services

	December 31, 2015	Three Months Ended December 31, 2014	Change	
		(in millions)	\$	%
Revenue	\$ 723.8	\$ 784.7	\$ (60.9)	(7.8)%
Cost of revenue	675.1	731.6	(56.5)	(7.7)
Gross profit	\$ 48.7	\$ 53.1	\$ (4.4)	(8.3)%

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

	December 31, 2015	Three Months Ended December 31, 2014
Revenue	100.0%	100.0%
Cost of revenue	93.3	93.2
Gross profit	6.7%	6.8%

Table of Contents

Revenue

Revenue for our MS segment for the three months ended December 31, 2015 decreased \$60.9 million, or 7.8%, to \$723.8 million as compared to \$784.7 million for the corresponding period last year. Revenue provided by acquired companies was \$92.0 million for the three months ended December 31, 2015. Excluding the revenue provided by acquired companies, revenue decreased \$152.9 million, or 19.5%, from the three months ended December 31, 2014.

The decrease in revenue, excluding revenue provided by acquired companies, for the quarter ended December 31, 2015 was primarily due to decreased services provided to the U.S. government in the Middle East and decreased services provided from chemical demilitarization projects for the Department of Defense.

Gross Profit

Gross profit for our MS segment for the three months ended December 31, 2015 decreased \$4.4 million, or 8.3%, to \$48.7 million as compared to \$53.1 million for the corresponding period last year. Gross profit provided by acquired companies was \$5.3 million for the three months ended December 31, 2015. Excluding gross profit provided by acquired companies, gross profit decreased \$9.7 million, or 18.3%, from the three months ended December 31, 2014. As a percentage of revenue, gross profit decreased to 6.7% of revenue for the three months ended December 31, 2015 from 6.8% in the corresponding period last year.

The decrease in gross profit, excluding revenue provided by acquired companies, for the quarter ended December 31, 2015 was primarily due to approximately \$30 million of reduced award fees from chemical demilitarization projects for the Department of Defense. The decrease was partially offset by a favorable adjustment from an acquisition related environmental legal matter of \$13.2 million (\$10.1 million, net of noncontrolling interests) as well as a \$6.8 million pension curtailment gain.

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.

Liquidity and Capital Resources

Cash Flows

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

Generally, we do not provide for U.S. taxes or foreign withholding taxes on undistributed earnings from non-U.S. subsidiaries because such earnings are able to and intended to be reinvested indefinitely. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. We recorded a deferred tax liability in the amount of \$108.9 million relating to certain foreign subsidiaries for which the undistributed earnings are not intended to be reinvested indefinitely as part of the liabilities assumed in connection with the acquisition of URS on October 17, 2014. Based on the available sources of cash flows discussed above, we anticipate we will continue to have the ability to permanently reinvest these amounts.

Table of Contents

At December 31, 2015, cash and cash equivalents were \$658.0 million, a decrease of \$25.9 million, or 3.8%, from \$683.9 million at September 30, 2015. The decrease in cash and cash equivalents was primarily attributable to net repayments of borrowings under credit agreements and net distributions to noncontrolling interest, partially offset by cash provided by operating activities and proceeds from the disposal of businesses.

Net cash provided by operating activities was \$78.1 million for the three months ended December 31, 2015, a decrease of \$204.5 million, or 72.4%, from \$282.6 million for the three months ended December 31, 2014. The decrease was primarily attributable to the timing of receipts and payments of working capital, which include accounts receivable, accounts payable, accrued expenses, and billings in excess of costs on uncompleted contracts. The sale of trade receivables to financial institutions during the three months ended December 31, 2015 provided a net benefit of \$27.3 million as compared to \$19.1 million during the three months ended December 31, 2014. We expect to continue to sell trade receivables in the future as long as the terms continue to remain favorable to the Company.

Net cash provided by investing activities was \$40.0 million for the three months ended December 31, 2015, as compared to net cash used in investing activities of \$3,319.4 million for the three months ended December 31, 2014. This change was primarily attributable to the payments for business acquisitions, net of cash acquired during the three months ended December 31, 2014 related to the acquisition of URS as more fully described in Note 3 to the accompanying financial statements. Payments for this acquisition included cash paid to stockholders and the payment of URS debt. Included in payments for capital expenditures were proceeds from disposals of property and equipment of \$21.9 million, \$4.7 million for the three months ended December 31, 2015 and 2014, respectively.

Net cash used in financing activities was \$138.2 million for the three months ended December 31, 2015, as compared to net cash provided by financing activities of \$3,206.1 million for the three months ended December 31, 2014. This change was primarily attributable to debt issued to finance the acquisition of URS during the three months ended December 31, 2014, as more fully described in Note 7 to the accompanying financial statements.

URS Financing and Acquisition and Integration Expenses

During the three months ended December 31, 2015, we incurred approximately \$4.1 million of acquisition related financing expenses, which were recognized in interest expense. Interest expense in the consolidated statements of operations for the three months ended December 31, 2014 included acquisition related financing expenses of \$68.0 million, which primarily consisted of a \$55.6 million penalty from the prepayment of our unsecured senior notes. Acquisition and integration expenses for the three months ended December 31, 2015 and 2014 were comprised of the following:

	Three months ended Dec 31,	
	2015	2014
Severance and personnel costs	\$ 6.6	\$ 109.3
Professional service, real estate-related, and other expenses	34.4	29.2
Total	\$ 41.0	\$ 138.5

Edgar Filing: AECOM - Form 10-Q

We expect to incur approximately \$200 million of amortization of intangible assets expense (including the effects of amortization included in equity in earnings of joint ventures and noncontrolling interests), and approximately \$200 million of acquisition and integration expenses in fiscal 2016.

Working Capital

Working capital, or current assets less current liabilities, decreased \$268.5 million, or 19.0%, to \$1,141.5 million at December 31, 2015 from \$1,410.0 million at September 30, 2015. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, decreased \$51.7 million, or 1.2%, to \$4,135.9 million at December 31, 2015 from \$4,187.6 million at September 30, 2015.

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 89 days at December 31, 2015 compared to 82 days at September 30, 2015.

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

Unbilled receivables related to claims are recorded only if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated. In such cases, revenue is recorded only to the extent that contract costs relating to the claim have been incurred. Other than as disclosed, there are no material net receivables related to contract claims as of December 31, 2015 and September 30, 2015. 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.

Table of Contents

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

Debt

Debt consisted of the following:

	December 31, 2015	September 30, 2015
	(in millions)	
2014 Credit Agreement	\$ 2,353.7	\$ 2,414.3
2014 Senior Notes	1,600.0	1,600.0
URS Senior Notes	428.9	429.4
Other debt	140.2	163.2
Total debt	4,522.8	4,606.9
Less: Current portion of debt and short-term borrowings	(156.4)	(160.4)
Long-term debt, less current portion	\$ 4,366.4	\$ 4,446.5

The following table presents, in millions, scheduled maturities of our debt as of December 31, 2015:

Fiscal Year	
2016 (nine months remaining)	\$ 119.5
2017	346.7
2018	125.2
2019	86.0
2020	1,505.2
Thereafter	2,340.2
Total	\$ 4,522.8

2014 Credit Agreement

In connection with the acquisition of URS, on October 17, 2014, we entered into a new credit agreement (Credit Agreement) consisting of (i) a term loan A facility in an aggregate principal amount of \$1.925 billion, (ii) a term loan B facility in an aggregate principal amount of \$0.76 billion, (iii) a revolving credit facility in an aggregate principal amount of \$1.05 billion, and (iv) an incremental performance letter of credit facility in an aggregate principal amount of \$500 million subject to terms outlined in the Credit Agreement. These facilities under the Credit Agreement may be increased by an additional amount of up to \$500 million. The Credit Agreement replaced the Second Amended and Restated Credit Agreement, dated as of June 7, 2013, and the Fourth Amended and Restated Credit Agreement, dated as of January 29, 2014, which such prior facilities were terminated and repaid in full on October 17, 2014. In addition, we paid in full, including a pre-payment penalty of \$55.6 million, our unsecured senior notes (5.43% Series A Notes due July 2020 and 1.00% Series B Senior Discount Notes due July 2022). The new Credit Agreement matures on October 17, 2019 with respect to the revolving credit facility, the term loan A facility, and the

Edgar Filing: AECOM - Form 10-Q

incremental performance letter of credit facility. The term loan B facility matures on October 17, 2021. Certain subsidiaries of the Company (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers' obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of certain conditions specified in the Credit Agreement and Security Agreement.

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

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

Table of Contents

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

Under the Credit Agreement, we are subject to a maximum consolidated leverage ratio and minimum interest coverage ratio at the end of each fiscal quarter beginning with the quarter ending on March 31, 2015. Our Consolidated Leverage Ratio was 4.7 at December 31, 2015. As of December 31, 2015, we were in compliance with the covenants of the Credit Agreement.

At December 31, 2015 and September 30, 2015, outstanding standby letters of credit totaled \$98.6 million and \$92.5 million, respectively, under our revolving credit facilities. As of December 31, 2015 and September 30, 2015, we had \$951.4 million and \$947.6 million, respectively, available under our revolving credit facility.

2014 Senior Notes

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

As of December 31, 2015, the estimated fair market value of our 2014 Senior Notes was approximately \$822.0 million for the 2022 Notes and \$812.0 million for the 2024 Notes. The fair value of the Notes as of December 31, 2015 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of its Notes.

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

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

Edgar Filing: AECOM - Form 10-Q

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

We were in compliance with the covenants relating to the Notes as of December 31, 2015.

URS Senior Notes

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

Table of Contents

As of December 31, 2015, the estimated fair market value of the URS Senior Notes was approximately \$179.2 million for the 2017 URS Senior Notes and \$223.7 million for the 2022 URS Senior Notes. The carrying value of the URS Senior Notes on our Consolidated Balance Sheets as of December 31, 2015 was \$181.5 million for the 2017 URS Senior Notes and \$247.4 million for the 2022 URS Senior Notes. The fair value of the URS Senior Notes as of December 31, 2015 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the URS Senior Notes.

As of December 31, 2015, we were in compliance with the covenants relating to the URS Senior Notes.

Other Debt

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. Our unsecured credit facilities are primarily used for standby letters of credit issued for payment of performance guarantees. At December 31, 2015 and September 30, 2015, these outstanding standby letters of credit totaled \$362.6 million and \$344.0 million, respectively. As of December 31, 2015, we had \$394.8 million available under these unsecured credit facilities.

Effective Interest Rate

Our average effective interest rate on our total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2015 and 2014 was 4.2% and 4.0%, respectively.

Joint Venture Arrangements and Other Commitments

We enter into various joint venture arrangements to provide architectural, engineering, program management, construction management and operations and maintenance services. The ownership percentage of these joint ventures is typically representative of the work to be performed or the amount of risk assumed by each joint venture partner. Some of these joint ventures are considered variable interest. We have consolidated all joint ventures for which we have control. For all others, our portion of the earnings is recorded in equity in earnings of joint ventures. See Note 5 in the notes to our consolidated financial statements.

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

Edgar Filing: AECOM - Form 10-Q

Under our unsecured revolving credit facility and other facilities discussed in Other Debt above, as of December 31, 2015, there was approximately \$461.2 million outstanding under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for contract performance guarantees. For those projects for which we have issued a performance guarantee, if the project subsequently fails to meet guaranteed performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards.

We recognized on our balance sheet the funded status (measured as the difference between the fair value of plan assets and the projected benefit obligation) of our pension benefit plans. The total amounts of employer contributions paid for the three months ended December 31, 2015 were \$5.7 million for U.S. plans and \$5.4 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. In addition, we have collective bargaining agreements with unions that require us to contribute to various third party multiemployer pension plans that we do not control or manage.

New Accounting Pronouncements and Changes in Accounting

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance which amended the existing accounting standards for revenue recognition. The new accounting guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The guidance will be effective for our fiscal year beginning October 1, 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We continue to evaluate the impact and method of the adoption of the new accounting guidance on our consolidated financial statements.

Table of Contents

In April 2015, the FASB issued new accounting guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The guidance requires retrospective application and represents a change in accounting principle. We do not expect the guidance to have a material impact on our consolidated financial statements, as the application of this guidance affects classification only. This guidance will be effective for our fiscal year beginning October 1, 2017.

In April 2015, the FASB issued new accounting guidance which provides the use of a practical expedient that permits the entity to measure defined benefit plans assets and obligations using the month-end date that is closest to the entity's fiscal year-end date and apply that practical expedient consistently from year to year. Should we elect to adopt this guidance, we do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements. This guidance will be effective for our fiscal year beginning October 1, 2017.

In September 2015, the FASB issued new accounting guidance which simplifies the accounting for measurement-period adjustments in connection with business combinations. The new guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment amount is determined, and therefore eliminates the requirement to retrospectively account for the adjustment in prior periods presented. This guidance was effective for fiscal years and interim periods beginning after December 15, 2015, and was to be applied prospectively to measurement-period adjustments that occur after the effective date. Early adoption was permitted. We early adopted this guidance for the quarter ended December 31, 2015, which did not have a material impact on the Company's financial statements.

In the first quarter of fiscal 2016, we adopted new accounting guidance which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This adoption did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued new accounting guidance which simplifies the presentation of deferred income taxes. This guidance requires that deferred tax assets and liabilities be classified as non-current in the balance sheet. We have elected early adoption of this standard on a prospective basis in the first quarter of fiscal 2016. This resulted in a reclassification of the our net current deferred tax asset and net current deferred tax liability to the net non-current deferred tax asset and to our net non-current deferred tax liability in our consolidated balance sheet as of December 31, 2015. Prior periods were not retrospectively adjusted. The adoption of this guidance had no impact on our consolidated results of income or comprehensive income

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Financial Market Risks

Financial Market Risks

Edgar Filing: AECOM - Form 10-Q

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

Foreign Exchange Rates

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

Table of Contents

Interest Rates

Our senior Credit Agreement and certain other debt obligations are subject to variable rate interest which could be adversely affected by an increase in interest rates. As of December 31, 2015, we had \$2,353.7 million in outstanding borrowings under our term credit agreements and our revolving credit facility. Interest on amounts borrowed under these agreements is subject to adjustment based on certain levels of financial performance. The applicable margin that is added to the borrowing's base rate can range from 0.75% to 3.00%. For the three months ended December 31, 2015, our weighted average floating rate borrowings were \$2,778.4 million, or \$2,178.4 million excluding borrowings with effective fixed interest rates due to interest rate swap agreements. If short term floating interest rates had increased or decreased by 0.125%, our interest expense for the three months ended December 31, 2015 would have increased or decreased by \$0.7 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, 2015 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, 2015 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

Edgar Filing: AECOM - Form 10-Q

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

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

Item 1A. Risk Factors

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The risks described below highlight some of the factors that have affected, and in the future could affect our operations. Additional risks we do not yet know of or that we currently think are immaterial may also affect our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. All references to fiscal years prior to fiscal 2015 relate only to the Company prior to the URS acquisition.

Table of Contents

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

Demand for our services is cyclical and may be vulnerable to sudden economic downturns and reductions in government and private industry spending that result in clients delaying, curtailing or canceling proposed and existing projects. For example, commodity price declines have negatively impacted our oil and gas business and business regions whose economies are substantially dependent on commodities prices such as the Middle East and have also impacted North American oil and gas clients' investment decisions. Economic conditions in a number of countries and regions, including Canada, China and the Middle East, remain weak and may remain difficult for the foreseeable future. If global economic and financial market conditions continue to 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.

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.

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 2015, 2014 and 2013, approximately 50%, 56% and 59%, respectively, of our revenue was derived from contracts with government entities.

Most government contracts are subject to the government's budgetary approval process. Legislatures typically appropriate funds for a given program on a year-by-year basis, even though contract performance may take more than one year. In addition, public-supported financing such as state and local municipal bonds may be only partially raised to support existing infrastructure projects. As a result, at the beginning of a program, the related contract is only partially funded, and additional funding is normally committed only as appropriations are made in each 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. Similarly, the impact of an economic downturn on state and local governments may make it more difficult for them to fund infrastructure projects. If appropriations are not made in subsequent years on our government contracts, then we will not realize all of our potential revenue and profit from that contract.

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

Under the Budget Control Act of 2011, an automatic sequestration process, or across-the-board budget cuts (a large portion of which was defense-related), was triggered when the Joint Select Committee on Deficit Reduction, a committee of twelve members of Congress, failed to

Edgar Filing: AECOM - Form 10-Q

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 until the end of fiscal year 2016, absent additional legislative or other remedial action, the sequestration requires reduced U.S. federal government spending from fiscal year 2017 through fiscal year 2021. A significant reduction in federal government spending or a change in budgetary priorities could reduce demand for our services, cancel or delay federal projects, and result in the closure of federal facilities and significant personnel reductions, which could have a material adverse effect on our results of operations and financial condition.

Our inability to win or renew government contracts during regulated procurement processes could harm our operations and reduce our profits and revenues.

Government contracts are awarded through a regulated procurement process. The federal government has relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery contracts, that generally require those contractors that have previously been awarded the indefinite delivery contract to engage in an additional competitive bidding process before a task order is issued. In addition, we believe that there has been an increase in the award of federal contracts based on a low-price, technically acceptable criteria emphasizing price over qualitative factors, such as past performance. As a result, pricing pressure may reduce our profit margins on future federal contracts. The increased competition and pricing pressure, in turn, may require us to make sustained efforts to reduce costs in order to realize revenues and profits under government contracts. If we are not successful in

Table of Contents

reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. In addition, we may not be awarded government contracts because of existing government policies designed to protect small businesses and under-represented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and reduce our profits and revenues.

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

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

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

Our books and records are subject to audit by the various governmental agencies we serve and their representatives. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies. If such matters are not resolved in our favor, they could have a material adverse effect on our business. In addition, if one of our subsidiaries is charged with wrongdoing as a result of an audit, that subsidiary, and possibly our company as a whole, could be temporarily suspended or could be prohibited from bidding on and receiving future government contracts for a period of time. Furthermore, as a government contractor, we are subject to an increased risk of investigations, criminal prosecution, civil fraud actions, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not, the results of which could materially adversely impact our business. For example, we are named from time to time in suits brought under the qui tam provisions of the False Claims Act and comparable state laws. These suits typically allege that we have made false statements or certifications in connection with claims for payment, or improperly retained overpayments, from the government. These suits may remain under seal (and hence, be unknown to us) for some time while the government decides whether to intervene on behalf of the qui tam plaintiff.

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

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

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

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

We have approximately \$4.5 billion of indebtedness (excluding intercompany indebtedness) outstanding as of December 31, 2015, of which \$2.4 billion was secured obligations (exclusive of \$98.6 million of outstanding undrawn letters of credit) and we have an additional \$951.4 million of availability under our Credit Agreement (after giving effect to outstanding letters of credit), all of which would be secured debt, if drawn. Our financial performance could be adversely affected by our substantial leverage. We may also incur significant additional indebtedness in the future, subject to certain conditions.

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

- we may have difficulty satisfying our obligations with respect to outstanding debt obligations;
- we may have difficulty obtaining financing in the future for working capital, acquisitions, capital expenditures or other purposes;

Table of Contents

- we may need to use all, or a substantial portion, of our available excess cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities, including, but not limited to, working capital requirements, acquisitions, capital expenditures or other general corporate or business activities;
- our debt level increases our vulnerability to general economic downturns and adverse industry conditions;
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;
- our substantial amount of debt and the amount we must pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt;
- we may have increased borrowing costs;
- our clients, surety providers or insurance carriers may react adversely to our significant debt level;
- we may have insufficient funds, and our debt level may also restrict us from raising the funds necessary, to retire certain of our debt instruments tendered to us upon maturity of our debt or the occurrence of a change of control, which would constitute an event of default under certain of our debt instruments; and
- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or prospects.

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

Edgar Filing: AECOM - Form 10-Q

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

Our operations worldwide expose us to legal, political and economic risks in different countries as well as currency exchange rate fluctuations that could harm our business and financial results.

During fiscal 2015, revenue attributable to our services provided outside of the United States to non-U.S. clients was approximately 30% of our total revenue. There are risks inherent in doing business internationally, including:

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

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

Table of Contents

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

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

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

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

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

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

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

Some of our services are performed in high-risk locations, such as Afghanistan, the Middle East, Iraq, North Africa, and Southwest Asia, where the country or location is suffering from political, social or economic problems, or war or civil unrest. In those locations where we have employees or operations, we may incur material costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk. Acts of terrorism and threats of armed conflicts in or around various areas in which we

operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of key employees, contractors or assets.

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

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

Table of Contents

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

Fixed-price contracts require us to either perform all work under the contract for a specified lump-sum or to perform an estimated number of units of work at an agreed price per unit, with the total payment determined by the actual number of units performed. In addition, we may enter guaranteed maximum price contracts where we guarantee a price or delivery date. Fixed-price contracts expose us to a number of risks not inherent in cost-plus, time and material, and guaranteed maximum price contracts, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond our control, failures of subcontractors to perform and economic or other changes that may occur during the contract period. In addition, our exposure to construction cost overruns may increase over time as we increase our construction services. Losses under fixed-price or guaranteed contracts could be substantial and adversely impact our results of operations.

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

In certain circumstances, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. If we or an entity for which we have provided a guarantee subsequently fails to complete the project as scheduled and the matter cannot be satisfactorily resolved with the client, we may be responsible for cost impacts to the client resulting from any delay or the cost to complete the project. Our costs generally increase from schedule delays and/or could exceed our projections for a particular project. In addition, project performance can be affected by a number of factors beyond our control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. Although we have not suffered material impacts to our results of operations due to any schedule or performance issues for the periods presented in this report, 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.

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

Approximately 16% of our fiscal 2015 revenue was derived from our operations through joint ventures or similar partnership arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners; and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors

could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Sales of our services provided to our unconsolidated joint ventures were approximately 3% of our fiscal 2015 revenue. We generally do not have control of these unconsolidated joint ventures. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our financial condition and results of operations and could also affect our reputation in the industries we serve.

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

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

Table of Contents

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

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

As a government contractor, misconduct, fraud or other improper activities caused by our employees, partners or consultants' failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with 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. Our failure to comply with applicable laws or regulations, misconduct by any of our employees or consultants or our failure to make timely and accurate certifications to government agencies regarding misconduct or potential misconduct could subject us to fines and penalties, loss of government granted eligibility, cancellation of contracts and suspension or debarment from contracting with government agencies, any of which may adversely affect our business.

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

We have defined benefit pension plans for employees in the United States, United Kingdom, Canada, Australia, and Ireland. At December 31, 2015, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately \$550.9 million. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors that may require us to make additional cash contributions to our pension plans and recognize further increases in our net pension cost to satisfy our funding requirements. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our results of operations could be materially and adversely affected.

A multiemployer pension plan is typically established under a collective bargaining agreement with a union to cover the union-represented workers of various unrelated companies. Our collective bargaining agreements with unions will require us to contribute to various multiemployer pension plans; however, we do not control or manage these plans. For the year ended September 30, 2015, we contributed \$54.5 million to multiemployer pension plans. Under the Employee Retirement Income Security Act, an employer who contributes to a multiemployer pension plan, absent an applicable exemption, may also be liable, upon termination or withdrawal from the plan, for its proportionate share of the multiemployer pension plan's unfunded vested benefit. If we terminate or withdraw from a multiemployer plan, absent an applicable exemption (such as for some plans in the building and construction industry), we could be required to contribute a significant amount of cash to fund the multiemployer plan's unfunded vested benefit, which could materially and adversely affect our financial results; however, since we do not control the multiemployer plans, we are unable to estimate any potential contributions that could be required.

New legal requirements could adversely affect our operating results.

Edgar Filing: AECOM - Form 10-Q

Our business and results of operations could be adversely affected by the passage of U.S. health care reform, climate change, defense, environmental and infrastructure industry specific and other 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. In addition, relaxation or repeal of laws and regulations, or changes in governmental policies regarding environmental, defense, infrastructure or other industries we serve could result in a decline in demand for our services, which could in turn negatively impact our revenues. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

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

Our services are subject to numerous environmental protection laws and regulations that are complex and stringent. Our business involves in part the planning, design, program management, construction and construction management, and operations and

Table of Contents

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

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

Demand for our oil and gas services fluctuates.

Demand for our oil and natural gas services fluctuates, and we depend on our customers' willingness to make future expenditures to explore for, develop and produce oil and natural gas in the U.S. and Canada. For example, the decline in the price of oil and natural gas has significantly decreased existing and future projects. Our customers' willingness to undertake these activities depends largely upon prevailing industry conditions that are influenced by numerous factors over which we have no control, including:

- prices, and expectations about future prices, of oil and natural gas;
- domestic and foreign supply of and demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;

- available pipeline, storage and other transportation capacity;
- availability of qualified personnel and lead times associated with acquiring equipment and products;
- federal, state and local regulation of oilfield activities;
- environmental concerns regarding the methods our customers use to extract natural gas;
- the availability of water resources and the cost of disposal and recycling services; and
- seasonal limitations on access to work locations.

Anticipated future prices for natural gas and crude oil are a primary factor affecting spending and drilling activity by our customers. The decline in prices for oil and natural gas has decreased spending and drilling activity, which has caused declines in demand for our services and in the prices we are able to charge for our services. Worldwide political, economic, military and terrorist events, as well as natural disasters and other factors beyond our control contribute to oil and natural gas price levels and volatility and are likely to continue to do so in the future.

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. In addition, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings, or sales or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all. Moreover, we cannot assure that we will continue to successfully expand or that growth or expansion will result in profitability.

Edgar Filing: AECOM - Form 10-Q

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

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

- the consequences of a change in tax treatment, including the costs of integration and compliance and the possibility that the full benefits anticipated from the acquisition will not be realized;
- any delay in the integration of management teams, strategies, operations, products and services;
- diversion of the attention of each company's management as a result of the acquisition;
- differences in business backgrounds, corporate cultures and management philosophies that may delay successful integration;
- the ability to retain key employees;
- the ability to create and enforce uniform standards, controls, procedures, policies and information systems;
- the challenge of integrating complex systems, technology, networks and other assets into those of ours in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition, including costs to integrate beyond current estimates;
- the ability to deduct or claim certain tax attributes or benefits such as operating losses, business or foreign tax credits; and
- the disruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies.

Table of Contents

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

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

The Credit Agreement and the indenture governing the 2014 Senior Notes (as defined below) contain a number of significant covenants that impose operating and other restrictions on us and our subsidiaries. Such restrictions affect or will affect, and in many respects limit or prohibit, among other things, our ability and the ability of certain of our subsidiaries to:

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

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

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

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

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

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

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

Borrowings under our Credit Agreement are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. A 0.125% decrease in such interest rates would decrease total interest expense under our Credit Agreement for the three months ended December 31, 2015 by \$0.7 million, including the effect of our interest rate swaps. We may, from time to time, enter into additional interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk and could be subject to credit risk themselves.

Table of Contents

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

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

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

There is strong competition for qualified technical and management personnel in the sectors in which we compete. We may not be able to continue to attract and retain qualified technical and management personnel, such as engineers, architects and project managers, who are necessary for the development of our business or to replace qualified personnel in the timeframe demanded by our clients. Our planned growth may place increased demands on our resources and will likely require the addition of technical and management personnel and the development of additional expertise by existing personnel. In addition, we may occasionally enter into contracts before we have hired or retained appropriate staffing for that project. Also, some of our personnel hold government granted eligibility that may be required to obtain certain government projects. If we were to lose some or all of these personnel, they would be difficult to replace. In addition, we rely heavily upon the expertise and leadership of our senior management. If we are unable to retain executives and other key personnel, the roles and responsibilities of those employees will need to be filled, which may require that we devote time and resources to identify, hire and integrate new employees. Loss of the services of, or failure to recruit, key technical and management personnel could limit our ability to successfully complete existing projects and compete for new projects.

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

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

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

We are engaged in a highly competitive business. The markets we serve are highly fragmented and we compete with a large number of regional, national and international companies. Certain of these competitors have greater financial and other resources than we do. Others are smaller and more specialized, and concentrate their resources in particular areas of expertise. The extent of our competition varies according to the particular markets and geographic area. In addition, the technical and professional aspects of some of our services generally do not require large upfront

capital expenditures and provide limited barriers against new competitors.

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

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

Our clients include public and private entities that have been, and may continue to be, negatively impacted by the changing landscape in the global economy. While outside of the U.S. federal government no one client accounted for over 10% of our revenue for fiscal 2015, we face collection risk as a normal part of our business where we perform services and subsequently bill our clients for such services, or when we make equity investments in majority or minority controlled large-scale client projects and other long-term capital projects before the project completes operational status or completes its project financing. In the event that we have concentrated credit risk from clients in a specific geographic area or industry, continuing negative trends or a worsening in the financial condition of that specific geographic area or industry could make us susceptible to disproportionately high levels of default by those clients. Such defaults could materially adversely impact our revenues and our results of operations.

Table of Contents

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

Our services involve significant risks of professional and other liabilities that may substantially exceed the fees that we derive from our services. In addition, we sometimes contractually assume liability to clients on projects under indemnification agreements. We cannot predict the magnitude of potential liabilities from the operation of our business. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project sites for our clients. We may be deemed to be responsible for these judgments and recommendations if such judgments and recommendations are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations.

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

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

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

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

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

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

insurance and indemnification, or by potentially significant monetary damages we may incur.

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

At December 31, 2015, our contracted backlog was approximately \$23.8 billion and our awarded backlog was approximately \$16.4 billion for a total backlog of \$40.2 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.

Table of Contents

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

We typically have pending claims submitted under some of our contracts for payment of work performed beyond the initial contractual requirements for which we have already recorded revenue. In general, we cannot guarantee that such claims will be approved in whole, in part, or at all. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. If these claims are not approved, our revenue may be reduced in future periods.

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

We depend on contractors, subcontractors and equipment and material providers in conducting our business. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, or our failure to extend existing task orders or issue new task orders under a subcontract. Also, to the extent that we cannot acquire equipment and materials at reasonable costs, or if the amount we are required to pay exceeds our estimates, our ability to complete a project in a timely fashion or at a profit may be impaired. In addition, if any of our subcontractors fail to deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services, our ability to fulfill our obligations as a prime contractor may be jeopardized, we could be held responsible for such failures and/or we may be required to purchase the supplies or services from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the supplies or services are needed.

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

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

The reports and other work product we produce for clients sometimes include projections, forecasts and other forward-looking statements. Such information by its nature is subject to numerous risks and uncertainties, any of which could cause the information produced by us to ultimately prove inaccurate. While we include appropriate disclaimers in the reports that we prepare for our clients, once we produce such written work product, we do not always have the ability to control the manner in which our clients use such information. As a result, if our clients reproduce such information to solicit funds from investors for projects without appropriate disclaimers and the information proves to be incorrect, or if our clients reproduce such information for potential investors in a misleading or incomplete manner, our clients or such investors may threaten to or file suit against us for, among other things, securities law violations. For example, an approximately \$155 million Australian dollar class action lawsuit was filed against AECOM Australia in the Federal Court of Australia on May 31, 2012 alleging deficiencies in AECOM Australia's traffic forecast. If we were found to be liable for any claims related to our client work product, our business could be adversely affected.

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

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;

Table of Contents

- the number and significance of client engagements commenced and completed during a quarter;
- the ability of clients to terminate engagements without penalties;
- the ability of our project managers to accurately estimate the percentage of the project completed;
- delays incurred as a result of weather conditions;
- delays incurred in connection with an engagement;
- the size and scope of engagements;
- the timing and magnitude of expenses incurred for, or savings realized from, corporate initiatives;
- changes in foreign currency rates;
- the seasonality of our business;
- the impairment of goodwill or other intangible assets; and
- general economic and political conditions.

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

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.

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

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

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

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

- removal of directors for cause only;
- ability of our Board of Directors to authorize the issuance of preferred stock in series without stockholder approval;
- two-thirds stockholder vote requirement to approve specified business combinations, which include a sale of substantially all of our assets;
- vesting of exclusive authority in our Board of Directors to determine the size of the board (subject to limited exceptions) and to fill vacancies;

- advance notice requirements for stockholder proposals and nominations for election to our Board of Directors; and
- prohibitions on our stockholders from acting by written consent and limitations on calling special meetings.

Table of Contents

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

Stock Repurchase Program

The Company's Board of Directors has authorized the repurchase of up to \$1.0 billion in Company stock. Share repurchases can be made through open market purchases or other methods, including pursuant to a Rule 10b5-1 plan. From the inception of the stock repurchase program, the Company has purchased a total of 27.4 million shares at an average price of \$24.10 per share, for a total cost of \$660.1 million through September 30, 2014. No stock purchases were made for the three months ended December 31, 2015.

Item 4. Mine Safety Disclosure

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

Item 6. Exhibits

The following documents are filed as Exhibits to the Report:

Exhibit Numbers	Description
3.1	Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's current report on Form 8-K filed with the SEC on January 9, 2015)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Company's current report on Form 8-K filed with the SEC on January 9, 2015)
10.1	Amendment No. 2 to Credit Agreement, dated as of December 22, 2015, among AECOM, on behalf of itself and certain subsidiaries acting as guarantors, certain lenders, and Bank of America, N.A., as Administrative Agent, Swing Line Lender, and an L/C Issuer (incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K filed with the SEC on December 22, 2015)
10.2#	Fourth Amendment, effective December 30, 2015, to the AECOM Management Supplemental Executive Retirement Plan [formerly known as the AECOM Technology Corporation Management Supplemental Executive Retirement Plan]
10.3#	First Amendment, effective December 30, 2015, to the AECOM Executive Deferred Compensation Plan [formerly known as the AECOM Technology Corporation Executive Deferred Compensation Plan]

Edgar Filing: AECOM - Form 10-Q

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

Management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

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

AECOM

Date: February 10, 2016

By:

/S/ W. TROY RUDD

W. Troy Rudd

Executive Vice President and Chief Financial Officer