AECOM TECHNOLOGY CORP
Form 10-Q
May 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from to

AECOM TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**61-1088522**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

555 South Flower Street, Suite 3700

Los Angeles, California 90071

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes o   No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o   Accelerated filer o   Non-accelerated filer x

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

Yes o   No x

As of May 4, 2007, 57,460,002 shares of the registrant s common stock were outstanding.

AECOM TECHNOLOGY CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AECOM Technology Corporation
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2006	**March 31, 2007 (Unaudited)**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 118,427	$ 84,472
Cash in consolidated joint ventures	9,393	31,742
Short-term investments	50	50
Total cash and cash equivalents	127,870	116,264
Accounts receivable net	913,178	1,040,079
Prepaid expenses and other current assets	52,827	56,665
TOTAL CURRENT ASSETS	1,093,875	1,213,008
PROPERTY AND EQUIPMENT:		
Equipment, furniture and fixtures	85,201	109,214
Leasehold improvements	31,539	38,147
Total	116,740	147,361
Accumulated depreciation and amortization	(26,417)	(38,276)
PROPERTY AND EQUIPMENT NET	90,323	109,085
DEFERRED INCOME TAXES	98,449	110,178
DEFERRED LOAN COSTS	1,444	1,404
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES	19,943	20,589
GOODWILL	466,508	534,575
INTANGIBLE AND OTHER ASSETS NET	18,168	44,068
OTHER NON-CURRENT ASSETS	37,064	43,289
TOTAL ASSETS	$ 1,825,774	$ 2,076,196
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Short-term debt	$ 2,716	$ 9,725
Accounts payable	265,192	264,930
Accrued expenses and other current liabilities	365,548	413,323
Billings in excess of costs on uncompleted contracts	143,283	200,891
Income taxes payable	35,646	40,977
Deferred tax liability net	12,824	11,551
Share purchase liability	55,394	56,634
Current portion of long-term obligations	11,949	23,533
TOTAL CURRENT LIABILITIES	892,552	1,021,564
OTHER LONG-TERM LIABILITIES	112,970	115,160
LONG-TERM OBLIGATIONS	122,790	153,118
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	18,701	16,904
REDEEMABLE COMMON AND PREFERRED STOCK AND STOCK UNITS	771,207	832,624
NOTES RECEIVABLE FROM STOCKHOLDERS	(36,552)	
	117,500	117,500

REDEEMABLE PREFERRED STOCK, Class F 47,000 authorized, issued and outstanding as of September 30, 2006 and March 31, 2007, $2,500 liquidation preference value per share		
REDEEMABLE PREFERRED STOCK, Class G 47,000 authorized, issued and outstanding as of September 30, 2006 and March 31, 2007, $2,500 liquidation preference value per share	117,500	117,500
STOCKHOLDERS DEFICIT:		
Additional paid-in capital	(254,225)	(289,790)
Accumulated other comprehensive loss	(36,669)	(29,495)
Retained earnings		21,111
TOTAL STOCKHOLDERS DEFICIT	(290,894)	(298,174)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 1,825,774	$ 2,076,196

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

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AECOM Technology Corporation
Condensed Consolidated Statements of Income
(unaudited in thousands, except per share data)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2007	Six Months Ended March 31, 2006	Six Months Ended March 31, 2007
Revenue	$ 858,930	$ 1,083,709	$ 1,605,727	$ 2,022,258
Cost of revenue	629,907	799,838	1,176,665	1,489,968
Gross profit	229,023	283,871	429,062	532,290
Equity in earnings of joint ventures	893	2,219	2,563	3,636
General and administrative expenses	204,838	248,146	381,821	467,974
Income from operations	25,078	37,944	49,804	67,952
Minority interest in share of earnings	3,530	3,648	5,481	5,234
Gain on the sale of equity investment				11,286
Interest expense net	4,067	2,228	7,790	3,303
Income before income tax expense	17,481	32,068	36,533	70,701
Income tax expense	5,594	10,870	11,691	23,983
Net income	$ 11,887	$ 21,198	$ 24,842	$ 46,718
Net income allocation:				
Preferred stock dividend	$ 663	$ 87	$ 2,047	$ 116
Net income available for common stockholders	11,224	21,111	22,795	46,602
Net income	$ 11,887	$ 21,198	$ 24,842	$ 46,718
Earnings per share:				
Basic	$ 0.21	$ 0.37	$ 0.43	$ 0.82
Diluted	$ 0.17	$ 0.27	$ 0.37	$ 0.60
Weighted average common shares outstanding:				
Basic	53,676	56,331	53,482	56,965
Diluted	70,306	77,964	67,765	78,500

Condensed Consolidated Statements of Comprehensive Income
(unaudited in thousands)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2007	Six Months Ended March 31, 2006	Six Months Ended March 31, 2007
Net income	$ 11,887	$ 21,198	$ 24,842	$ 46,718
Other comprehensive income:				
Foreign currency translation adjustments	2,509	4,199	786	7,174
Other comprehensive income	2,509	4,199	786	7,174
Comprehensive income	$ 14,396	$ 25,397	$ 25,628	$ 53,892

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

AECOM Technology Corporation
Condensed Consolidated Statements of Cash Flows
(unaudited in thousands)

	Six Months Ended March 31, 2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 24,842	$ 46,718
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	17,982	18,972
Equity in earnings of unconsolidated joint ventures	(2,563)	(3,636)
Distribution of earnings from unconsolidated joint ventures	4,809	4,068
Stock match and other non-cash stock compensation	6,350	13,143
Write-off of deferred financing costs	2,100	
Interest income on notes from stockholders	(1,036)	(754)
Foreign currency translation	2,360	1,490
Gain on sale of equity investment		(11,286)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(101,821)	(75,211)
Prepaid expenses and other assets	2,099	(11,869)
Accounts payable	49,103	(11,395)
Accrued expenses and other current liabilities	(4,730)	31,928
Billings in excess of costs on uncompleted contracts	(2,116)	51,903
Income taxes payable	(3,291)	(171)
Other long-term obligations	4,279	(170)
Net cash (used in)/provided by operating activities	(1,633)	53,730
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for business acquisitions, net of cash acquired	(34,089)	(125,797)
Proceeds from the sale of equity investment		14,683
Net investments in unconsolidated joint ventures	687	712
Payments for capital expenditures	(13,210)	(18,642)
Proceeds on sale of property and equipment	416	
Net cash used in investing activities	(46,196)	(129,044)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	142,014	51,858
Repayments of borrowings under other long-term obligations	(175,316)	(8,500)
Proceeds from issuance of common stock and preferred stock	31,132	42,157
Proceeds from issuance of stock upon exercise of stock options	4,646	2,933
Net proceeds from the issuance of Class F and Class G preferred stock	232,120	
Repurchase of Class D preferred stock	(116,486)	
Repayment of notes receivable from stockholders	1,039	22,663
Payments to repurchase common stock and common stock units	(47,056)	(48,455)
Payments of dividends on convertible preferred stock	(1,900)	
Net cash provided by financing activities	70,193	62,656
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(383)	1,052
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,981	(11,606)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	54,352	127,870
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 76,333	$ 116,264

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

AECOM Technology Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2007, the condensed consolidated statements of income for the three and six months ended March 31, 2006 and 2007, and the condensed consolidated statements of cash flows for the six months ended March 31, 2006 and 2007 of AECOM Technology Corporation, or the Company, are unaudited, and, in the opinion of management, include all adjustments necessary for a fair statement of the financial position and the results of operations for the periods presented.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Amendment No. 3 to Form S-1 as filed with the Securities and Exchange Commission on May 7, 2007 for the fiscal year ended September 30, 2006. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

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

2. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents, including cash in consolidated joint ventures, totaled $127.9 million and $116.3 million as of September 30, 2006 and March 31, 2007, respectively.

3. Accounts Receivable Net

Net accounts receivable consisted of the following as of September 30, 2006 and March 31, 2007:

	September 30, 2006	**March 31, 2007**
	(in thousands)	
Billed	$ 543,606	$ 600,120
Unbilled	372,034	439,435
Contract retentions	38,921	46,568
Total accounts receivable gross	954,561	1,086,123
Allowance for doubtful accounts	(41,383)	(46,044)
Total accounts receivable net	$ 913,178	$ 1,040,079
Billings in excess of costs on uncompleted contracts	$ 143,283	$ 200,891

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the fiscal period end. Substantially all unbilled receivables as of September 30, 2006 and March 31, 2007 are expected to be billed and collected within twelve months. Contract retentions represent amounts invoiced to clients; however payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding several months or years.

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

Other than the U.S. government, no single client accounted for more than 10% of the Company s accounts receivable as of September 30, 2006 or March 31, 2007.

4. Goodwill and Acquired Intangible Assets

The changes in the carrying value of goodwill by reporting unit for the six months ended March 31, 2007 were as follows:

	September 30, 2006 (in thousands)	Post-Acquisition Adjustments	Acquired	March 31, 2007
Professional Technical Services	$ 457,575	$ 1,239	$ 67,328	$ 526,142
Management Support Services	8,933	(500)		8,433
Total	$ 466,508	$ 739	$ 67,328	$ 534,575

The gross amounts and accumulated amortization of the Company s acquired identifiable intangible assets with finite useful lives as of September 30, 2006 and March 31, 2007 included in intangible and other assets net in the accompanying condensed consolidated balance sheets, were as follows:

	September 30, 2006		March 31, 2007	
	Gross Amount (in thousands)	Accumulated Amortization	Gross Amount	Accumulated Amortization
Backlog	$ 16,687	$ 15,254	$ 34,916	$ 20,125
Customer Relationships	18,179	2,180	31,228	3,410
Trade-Names	899	163	1,762	303
Total	$ 35,765	$ 17,597	$ 67,906	$ 23,838

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

The following table presents estimated amortization expense for the remainder of fiscal 2007 and for the succeeding years:

	(in thousands)
2007	$ 11,068
2008	8,952
2009	3,481
2010	3,471
2011	3,328
Thereafter	13,768
Total	$ 44,068

5. Disclosures About Pension Benefit Obligations

The Company s pension cost for the three and six months ended March 31, 2006 and 2007 includes the following components (in thousands):

U.S. Plans	Three Months Ended March 31, 2006	2007	Six Months Ended March 31, 2006	2007
Service costs	$ 765	$ 651	$ 1,530	$ 1,302
Interest cost on projected benefit obligation	1,678	1,876	3,356	3,752
Expected return on plan assets	(1,621)	(1,719)	(3,242)	(3,438)
Amortization of prior service costs	(290)	(289)	(580)	(578)
Amortization of net loss	1,433	982	2,866	1,964
Net periodic benefit cost	$ 1,965	$ 1,501	$ 3,930	$ 3,002

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Non-U.S. Plans	Three Months Ended March 31, 2006	2007	Six Months Ended March 31, 2006	2007
Service costs	$ 1,316	$ 1,245	$ 2,632	$ 2,463
Interest cost on projected benefit obligation	3,812	4,378	7,624	8,660
Expected return on plan assets	(3,427)	(4,047)	(6,854)	(8,007)
Amortization of prior service costs	(220)	(428)	(440)	(525)
Amortization of net gain	1,459	970	2,918	1,919
Curtailment gain recognized		(2,646)		(2,646)
Net periodic benefit cost	$ 2,940	$ (528)	$ 5,880	$ 1,864

The total amounts of employer contributions paid for the three and six months ended March 31, 2007 were $0.0 and $0.1 million, respectively, for U.S. subsidiaries and $3.9 and $7.7 million, respectively for non-U.S. subsidiaries. The expected remaining scheduled annual employer contributions for fiscal year September 30, 2007 are $3.2 million for U.S. subsidiaries and $7.6 million for non-U.S. subsidiaries.

6. Reportable Segments

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

Management internally analyzes the results of the Company s segments and operations using the non-GAAP measure of revenue, net of other direct costs which is a measure of work performed by the Company. All inter-company balances and transactions are eliminated in consolidation.

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

Reportable Segments:	Professional Technical Services (in thousands)	Management Support Services	Total
Three Months Ended March 31, 2006:			
Revenue	$ 707,357	$ 151,168	$ 858,525
Revenue, net of other direct costs	455,424	32,683	488,107
Gross profit	219,761	10,741	230,502
Gross profit as a % of revenue	31.1 %	7.1 %	26.8 %
Gross profit as a % of revenue, net of other direct costs	48.3 %	32.9 %	47.2 %
Equity in earnings of joint ventures	656	236	892
General and administrative expenses	191,153	4,196	195,349
Segment income from operations	29,264	6,781	36,045
Three Months Ended March 31, 2007:			
Revenue	$ 841,019	$ 240,491	$ 1,081,510
Revenue, net of other direct costs	558,978	28,624	587,602
Gross profit	273,193	12,842	286,035
Gross profit as a % of revenue	32.5 %	5.3 %	26.4 %
Gross profit as a % of revenue, net of other direct costs	48.9 %	44.9 %	48.7 %
Equity in earnings of joint ventures	622	1,538	2,160
General and administrative expenses	232,264	6,035	238,299
Segment income from operations	41,551	8,345	49,896
Segment assets	1,875,898	125,420	2,001,318

Reportable Segments:	**Professional Technical Services (in thousands)**	**Management Support Services**	**Total**
Six Months Ended March 31, 2006:			
Revenue	$ 1,319,621	$ 285,647	$ 1,605,268
Revenue, net of other direct costs	855,024	46,257	901,281
Gross profit	411,892	17,361	429,253
Gross profit as a % of revenue	31.2 %	6.1 %	26.7 %
Gross profit as a % of revenue, net of other direct costs	48.2 %	37.5 %	47.6 %
Equity in earnings of joint ventures	1,405	1,157	2,562
General and administrative expenses	359,546	8,310	367,856
Segment income from operations	53,751	10,208	63,959
Six Months Ended March 31, 2007:			
Revenue	$ 1,594,564	$ 425,171	$ 2,019,735
Revenue, net of other direct costs	1,041,760	48,710	1,090,470
Gross profit	513,229	20,959	534,188
Gross profit as a % of revenue	32.2 %	4.9 %	26.4 %
Gross profit as a % of revenue, net of other direct costs	49.3 %	43.0 %	49.0 %
Equity in earnings of joint ventures	1,014	3,740	4,754
General and administrative expenses	435,943	11,806	447,749
Segment income from operations	78,300	12,893	91,193
Segment assets	1,875,898	125,420	2,001,318

Reconciliations:	**Three Months Ended March 31, 2006 (in thousands)**	**March 31, 2007**	**Six Months Ended March 31, 2006**	**March 31, 2007**
Revenue:				
Revenue from reportable segments	$ 858,525	$ 1,081,510	$ 1,605,268	$ 2,019,735
Other revenue	405	2,199	459	2,523
Total consolidated revenue	$ 858,930	$ 1,083,709	$ 1,605,727	$ 2,022,258
Gross profit:				
Gross profit from reportable segments	$ 230,502	$ 286,035	$ 429,253	$ 534,188
Other	(1,479)	(2,164)	(191)	(1,898)
Total consolidated gross profit	$ 229,023	$ 283,871	$ 429,062	$ 532,290
Equity in earnings of joint ventures:				
Equity in earnings of joint ventures from reportable Segments	$ 892	$ 2,160	$ 2,562	$ 4,754
Other equity in earnings of joint ventures	1	59	1	(1,118)
Total consolidated equity in earnings of joint ventures	$ 893	$ 2,219	$ 2,563	$ 3,636
General and administrative expenses:				
General and administrative expenses of reportable segments	$ 195,349	$ 238,299	$ 367,856	$ 447,749
Unallocated corporate general and administrative expense	9,489	9,847	13,965	20,225
Total consolidated general and administrative expense	$ 204,838	$ 248,146	$ 381,821	$ 467,974
Income from operations:				
Segment income from operations	$ 36,045	$ 49,896	$ 63,959	$ 91,193
Loss from operations not allocated to reportable segments	(10,967)	(11,952)	(14,156)	(23,241)
Total consolidated income from operations	$ 25,078	$ 37,944	$ 49,804	$ 67,952

Reconciliations (continued):	**March 31, 2007**
Segment assets:	
Total assets of reportable segments	$ 2,001,318
Other assets not allocated to reportable segments and eliminations	74,878
Total assets	$ 2,076,196

7. Recently Issued Accounting Pronouncements

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

In September 2006, the FASB, issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 requires employers to fully recognize the obligations associated with defined benefit pension plans in their financial statements. The Company will be required to recognize such obligations as of September 30, 2007. Additionally, the Company will be required to measure such obligations as of the ned of its fiscal year, rather than up to three months earlier as had been previously permitted, effective in its fiscal year ending September 30, 2009. The Company is currently evaluating the impact of the provisions of SFAS 158 on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the fiscal year ending September 30, 2009. The Company is currently evaluating the impact of the provisions of SFAS 157 on its results of operations and financial position.

In June 2006, the FASB issued FASB Interpretation FIN, No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements. FIN 48 prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Additionally, FIN 48 provides guidance on recognition or de-recognition of interest and penalties, changes in judgment in interim periods, and disclosures of uncertain tax positions. FIN 48 becomes effective for the Company in fiscal year beginning October 1, 2007. The Company is in the process of determining the effect of the adoption of FIN 48 on its results of operations and financial position.

8. Stock-Based Compensation

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

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

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

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

The fair value of the Company s stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The expected term of awards granted represents the period of time the awards are expected to be outstanding. As the Company s common stock is not publicly-traded, expected volatility is based on a historical volatility, for a period consistent with the expected option term, of publicly-traded peer companies. The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the option on the grant date. The Company uses historical data as a basis to estimate forfeitures.

The fair value of options granted during the three and six months ended March 31, 2007 was determined using the following weighted average assumptions:

	Three Months Ended March 31, 2007	Six Months Ended March 31, 2007
Dividend yield		
Expected volatility	25 %	25 %
Risk-free interest rate	4.60 %	4.58 %
Term (in years)	7	7

As a result of the adoption of SFAS 123R, the Company s net income for the three and six months ended March 31, 2007 was $0.2 million and $0.3 million, respectively, lower than under the Company s previous accounting method, as a result of recognizing as expense the fair value of stock options.

Stock option activity for the six months ended March 31, 2007 was as follows:

	Shares of stock under options	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at September 30, 2006	8,928,640	$ 8.42	$ 75,213
Options granted	548,620	14.13	7,755
Options forfeited or expired	24,466	13.62	333
Options exercised	383,182	7.60	2,912
Outstanding at March 31, 2007	9,069,612	8.79	$ 79,723
Vested and expected to vest in the future as of March 31, 2007	9,059,060	$ 8.78	$ 79,568

The weighted average grant-date fair value of stock options granted during the six months ended March 31, 2007 was $5.53.

9. Earnings Per Share

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

The following table sets forth the number of weighted average shares used to compute basic and diluted EPS:

	Three Months Ended		Six Months Ended	
	March 31, 2006	March 31, 2007	March 31, 2006	March 31, 2007
	(in thousands, except per share data)			
Numerator for basic earnings per share:				
Net income	$ 11,887	$ 21,198	$ 24,842	$ 46,718
Preferred stock dividends	663	87	2,047	116
Net income available for common stockholders	$ 11,224	$ 21,111	$ 22,795	$ 46,602
Denominator for basic earnings per share:				
Weighted average shares	53,676	56,331	53,482	56,965
Numerator for diluted earnings per share:				
Net income	$ 11,887	$ 21,198	$ 24,842	$ 46,718
Denominator for basic earnings per share	53,676	56,331	53,482	56,965
Potential common shares:				
Preferred stock, Class D	3,701		6,331	
Preferred stock, Class F and G	10,215	18,747	5,107	18,747
Stock options	2,150	2,462	2,176	2,348
Preferred stock, other	369	395	390	391
Stock matches	33	19	29	36
Stock units	16	10	14	13
Stock warrants	146		236	
Denominator for diluted earnings per share	70,306	77,964	67,765	78,500
Earnings per share:				
Basic	$ 0.21	$ 0.37	$ 0.43	$ 0.82
Diluted	$ 0.17	$ 0.27	$ 0.37	$ 0.60

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

10. Stock Plans

During the six months ended March 31, 2007, the Company s Global Stock Program, or GSP, sold to the Company 1.6 million shares for $21.4 million as compared to 1.7 million for $20.0 million during the six months ended March 31, 2006. During the six months ended March 31, 2007, the Company s Stock Purchase Plan, or SPP, sold to the Company 0.7 million shares for $10.0 million as compared to 0.6 million shares for $8.3 million during the six months ended March 31, 2006. During the six months ended March 31, 2007, direct shareholders sold to the Company 1.2 million shares for $16.1 million as compared to 1.3 million shares for $17.6 million during the six months ended March 31, 2006.

11. Commitments and Contingencies

The Company is subject to certain claims and lawsuits typically filed against the engineering and consulting profession, alleging primarily professional errors or omissions. The Company carries professional liability insurance against such claims, subject to certain deductibles and policy limits. From time to time the Company establishes reserves for litigation that is

considered a probable loss. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the Company.

At March 31, 2007, the Company was contingently liable in the amount of approximately $47.9 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for payment and performance guarantees relating to domestic and overseas contracts. In addition, in some instances the Company guarantees that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards.

Under joint venture arrangements, if a partner is financially unable to complete its share of the contract, the other partner(s) will be required to complete those activities. The Company generally only enters into joint venture arrangements with partners who are reputable, financially sound and who carry appropriate levels of surety bonds for the project in order to adequately assure completion of their assignments. The Company is a partner in certain joint ventures where the joint venture has contracted with subconsultants for certain specialized professional services. The joint venture, or the Company to the extent that the joint venture partner(s) are unable to fulfill their responsibilities, is liable to the third-party customer for performance of the sub-consultant and would be liable to the sub-consultant if the third-party customer failed to make payments due the joint venture for sub-consultant services.

12. Subsequent Event

The Company s board of directors approved a two-for-one stock split, effected as a 100-percent dividend on the Company s common stock, effective May 4, 2007. All share and per share amounts presented have been adjusted accordingly, on a retroactive basis, to reflect this stock dividend.

On May 7, 2007, the Company filed Amendment No. 3 to its registration statement on Form S-1 for the initial public offering of its common stock. The amendment contained, among other things, financial information for the fiscal period ended March 31, 2007, information on the proposed offering, an indicative price range and the intended use of proceeds from the proposed offering, including repayment of certain existing debt obligations described in this Quarterly Report.

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

Forward-Looking Statements

This Quarterly Report contains certain forward-looking statements, including the plans and objectives of management for our business, operations and economic performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans, is confident that or words of similar m with reference to us or our management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including, but not limited to, our dependence on long-term government contracts, which are subject to uncertainties concerning the government s budgetary approval process, the possibility that our government contracts may be terminated by the government, our ability to successfully manage our joint ventures, the risk of employee misconduct or our failure to comply with laws and regulations, our ability to successfully execute our mergers and acquisitions strategy, including the integration of new companies into our business, our ability to attract and retain key technical and management personnel, our ability to complete our backlog of uncompleted projects as currently projected, our liquidity and capital resources and changes in regulation or legislation that could affect us. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. In addition to the other risks and uncertainties mentioned in connection with certain forward-looking statements throughout this Quarterly Report, attention is directed to Part II, Item 1A Risk Factors in this Quarterly Report and the disclosure under the captions Risk Factors, Special Note Regarding Forward-Looking Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations in Amendment No. 3 to our previously filed Form S-1 for a discussion of the factors, risks and uncertainties that could affect our future results.

Overview

We are a leading global provider of professional technical and management support services for commercial and government clients around the world. We provide our services in a broad range of end markets and strategic geographic markets through a global network of operating offices and more than 30,000 employees and staff employed in the field on a project-by-project basis.

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

Our PTS segment delivers planning, consulting, architecture and engineering design, and program and construction management services to institutional, commercial and government clients worldwide in major end markets such as transportation, facilities and environmental markets. PTS revenue is primarily derived from fees from services that we provide, as opposed to pass-through fees from subcontractors and other direct costs. As a percentage of PTS revenue, our other direct costs, including subcontractor and consultant costs, typically range from 30% to 38%. Our gross margin as a percentage of PTS revenue typically ranges from 30% to 32%, depending on the nature and scope of the underlying projects.

Our MSS segment provides facilities management and maintenance, training, logistics, consulting, technical assistance and systems integration services, primarily for agencies of the U.S. government. MSS revenue typically includes a significant amount of pass-through fees from subcontractor and other direct costs. As a percentage of MSS revenue, other direct costs, including subcontractor, consultants and material costs typically range from 85% to 87%. Our gross margin as a percentage of MSS revenue typically ranges from 3% to 5%, depending on the level of other direct costs required, which can vary significantly from period to period.

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

Our costs are driven primarily by the compensation we pay to our employees, including fringe benefits, the cost of hiring subcontractors and other project-related expenses, and sales and general and administrative overhead costs.

Components of Income and Expense

Our management analyzes the results of our operations using two financial measures that are not in accordance with generally accepted accounting principles in the United States (GAAP): revenue, net of other direct costs and cost of revenue, net of other direct costs.

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

	Year Ended September 30,					Six Months Ended March 31,	
	2002	**2003**	**2004**	**2005**	**2006**	**2006**	**2007**
	(in millions)						
Other Financial Data:							
Revenue	$ 1,747	$ 1,915	$ 2,012	$ 2,395	$ 3,421	$ 1,606	