Fossil Group, Inc.
Form 10-Q
November 07, 2013

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: September 28, 2013

OR

o 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: 000-19848

FOSSIL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**75-2018505** (I.R.S. Employer Identification No.)
901 S. Central Expressway, Richardson, Texas (Address of principal executive offices)	**75080** (Zip Code)

(972) 234-2525

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the registrant s common stock outstanding as of November 1, 2013: 55,204,589.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FOSSIL GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

IN THOUSANDS

	September 28, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 228,899	$ 177,236
Securities available for sale	0	127
Accounts receivable - net of allowances of $67,482 and $82,362, respectively	360,580	363,456
Inventories	656,585	506,314
Deferred income tax assets-net	35,027	34,238
Prepaid expenses and other current assets	74,359	62,741
Total current assets	1,355,450	1,144,112
Investments	25	6,965
Property, plant and equipment - net of accumulated depreciation of $302,076 and $262,041, respectively	351,626	335,446
Goodwill	204,975	184,793
Intangible and other assets-net	178,115	170,673
Total long-term assets	734,741	697,877
Total assets	$ 2,090,191	$ 1,841,989
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 164,541	$ 149,561
Short-term debt	14,567	2,794
Accrued expenses:		
Compensation	69,407	55,563
Royalties	44,491	53,547
Co-op advertising	16,366	24,500
Transaction taxes	22,781	27,973
Other	72,371	61,575
Income taxes payable	32,680	31,265
Total current liabilities	437,204	406,778
Long-term income taxes payable	11,053	8,662
Deferred income tax liabilities	81,724	79,756
Long-term debt	468,369	75,140
Other long-term liabilities	53,039	31,189
Total long-term liabilities	614,185	194,747

Commitments and contingencies (Note 12)				
Stockholders equity:				
Common stock, 55,647 and 59,631 shares issued at September 28, 2013 and December 29, 2012, respectively		556		596
Additional paid-in capital		149,906		138,097
Retained earnings		848,002		1,066,082
Accumulated other comprehensive income		30,958		28,760
Total Fossil Group, Inc. stockholders equity		1,029,422		1,233,535
Noncontrolling interest		9,380		6,929
Total stockholders equity		1,038,802		1,240,464
Total liabilities and stockholders equity	$	2,090,191	$	1,841,989

See notes to the condensed consolidated financial statements.

FOSSIL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED

IN THOUSANDS, EXCEPT PER SHARE DATA

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net sales	$ 810,396	$ 684,170	$ 2,197,544	$ 1,909,807
Cost of sales	345,427	302,646	945,203	842,942
Gross profit	464,969	381,524	1,252,341	1,066,865
Operating expenses:				
Selling and distribution	229,095	193,276	649,747	570,979
General and administrative	94,842	75,161	260,293	211,841
Total operating expenses	323,937	268,437	910,040	782,820
Operating income	141,032	113,087	342,301	284,045
Interest expense	3,036	1,437	6,016	3,680
Other income-net	259	2,211	9,082	6,185
Income before income taxes	138,255	113,861	345,367	286,550
Provision for income taxes	45,881	33,984	108,604	85,213
Net income	92,374	79,877	236,763	201,337
Less: Net income attributable to noncontrolling interest	2,640	3,086	7,130	9,068
Net income attributable to Fossil Group, Inc.	$ 89,734	$ 76,791	$ 229,633	$ 192,269
Other comprehensive income (loss), net of taxes:				
Currency translation adjustment	$ 19,277	$ 12,249	$ 2,424	$ 6,639
Unrealized gain (loss) on securities available for sale	558	(4)	475	25
Cash flow hedges-change in fair value	(5,691)	(1,983)	(701)	(1,075)
Total other comprehensive income	14,144	10,262	2,198	5,589
Total comprehensive income	106,518	90,139	238,961	206,926
Less: Comprehensive income attributable to noncontrolling interest	2,640	3,086	7,130	9,068
Comprehensive income attributable to Fossil Group, Inc.	$ 103,878	$ 87,053	$ 231,831	$ 197,858
Earnings per share:				
Basic	$ 1.59	$ 1.27	$ 3.95	$ 3.13
Diluted	$ 1.58	$ 1.26	$ 3.93	$ 3.11
Weighted average common shares outstanding:				
Basic	56,458	60,573	58,150	61,342
Diluted	56,704	60,955	58,433	61,804

See notes to the condensed consolidated financial statements.

FOSSIL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

IN THOUSANDS

	For the 39 Weeks Ended	
	September 28, 2013	September 29, 2012
Operating Activities:		
Net income	$ 236,763	$ 201,337
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	59,639	47,146
Stock-based compensation	11,062	12,858
Decrease in allowance for returns-net of inventory in transit	(3,586)	(2,929)
Loss on disposal of assets	660	1,473
Impairment losses	0	256
Equity in income of joint venture	0	(815)
Gain on equity method investment	(6,510)	0
Decrease in allowance for doubtful accounts	(6,200)	(3,047)
Excess tax benefits from stock-based compensation	(7,204)	(11,223)
Deferred income taxes and other	5,968	4,836
Contingent consideration revaluation	0	(3,585)
Changes in operating assets and liabilities:		
Accounts receivable	22,919	41,043
Inventories	(144,726)	(78,487)
Prepaid expenses and other current assets	(9,512)	(1,866)
Accounts payable	14,368	(28,586)
Accrued expenses	(4,806)	(50,141)
Income taxes payable	11,118	40,231
Net cash provided by operating activities	179,953	168,501
Investing Activities:		
Additions to property, plant and equipment	(66,334)	(59,710)
Increase in intangible and other assets	(8,959)	(4,980)
Proceeds from the sale of property, plant and equipment, and other	2,027	21
Net change in restricted cash	424	6,903
Business acquisitions-net of cash acquired	(14,896)	(229,151)
Net cash used in investing activities	(87,738)	(286,917)
Financing Activities:		
Acquisition of common stock	(460,413)	(205,631)
Distribution of noncontrolling interest earnings	(4,679)	(4,406)
Excess tax benefits from stock-based compensation	7,204	11,223
Debt borrowings	960,116	399,198
Debt payments	(554,078)	(235,688)
Proceeds from exercise of stock options	6,203	5,279
Net cash used in financing activities	(45,647)	(30,025)
Effect of exchange rate changes on cash and cash equivalents	5,095	3,780
Net increase (decrease) in cash and cash equivalents	51,663	(144,661)
Cash and cash equivalents:		
Beginning of period	177,236	287,498
End of period	$ 228,899	$ 142,837

See notes to the condensed consolidated financial statements.

FOSSIL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

1. FINANCIAL STATEMENT POLICIES

Basis of Presentation. On May 22, 2013, the company changed its corporate name from Fossil, Inc. to Fossil Group, Inc. The condensed consolidated financial statements include the accounts of Fossil Group, Inc., a Delaware corporation, and its wholly and majority-owned subsidiaries (the Company). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the Company s financial position as of September 28, 2013, and the results of operations for the thirteen week periods ended September 28, 2013 (Third Quarter) and September 29, 2012 (Prior Year Quarter), and the thirty-nine week periods ended September 28, 2013 (Year To Date Period) and September 29, 2012 (Prior Year YTD Period). All adjustments are of a normal, recurring nature.

These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K filed by the Company pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), for the fiscal year ended December 29, 2012 (the 2012 Form 10-K). Operating results for the Third Quarter and Year to Date Period are not necessarily indicative of the results to be achieved for the full fiscal year.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company has not made any changes in its significant accounting policies from those disclosed in the 2012 Form 10-K.

Business. The Company is a global design, marketing and distribution company that specializes in consumer fashion accessories. Its principal offerings include an extensive line of men s and women s fashion watches and jewelry, handbags, small leather goods, belts, sunglasses, soft accessories and clothing. In the watch and jewelry product categories, the Company has a diverse portfolio of globally recognized owned and licensed brand names under which its products are marketed. The Company s products are distributed globally through various distribution channels, including wholesale in countries where it has a physical presence, direct to the consumer through its retail stores and commercial websites and through third-party distributors in countries where the Company does not maintain a physical presence. The Company s products are offered at varying price points to meet the needs of its customers, whether they are value-conscious or luxury oriented. Based on its extensive range of accessory products, brands, distribution channels and price points, the Company is able to target style-conscious consumers across a wide age spectrum on a global basis.

Hedging Instruments. The Company s derivative instruments consist of foreign exchange forward contracts and an interest rate swap. The Company s foreign subsidiaries periodically enter into foreign exchange forward contracts to hedge the future payment of intercompany inventory transactions denominated in U.S. dollars. If the Company s foreign subsidiaries were to settle their contracts designated as cash flow hedges that were denominated in Euros, British Pounds, Canadian Dollars, Japanese Yen, Mexican Pesos, and Australian Dollars, the net result would have been a loss of approximately $3.3 million, net of taxes, as of September 28, 2013. Also, the Company has entered into an interest rate swap agreement to effectively convert a portion of variable rate debt obligations from a floating rate to a fixed rate. The Company applies the hedge accounting rules as required by Accounting Standards Codification (ASC) 815, *Derivatives and Hedging* (ASC 815). See Note

8 Derivatives and Risk Management for additional disclosures about the Company s use of derivatives.

Earnings Per Share (EPS) Basic EPS is based on the weighted average number of common shares outstanding during each period. Diluted EPS adjusts basic EPS for the effects of dilutive common stock equivalents outstanding during each period using the treasury stock method.

The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS (in thousands, except per share data):

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Numerator:				
Net income attributable to Fossil Group, Inc.	$ 89,734	$ 76,791	$ 229,633	$ 192,269
Denominator:				
Basic EPS computation:				
Basic weighted average common shares outstanding	56,458	60,573	58,150	61,342
Basic EPS	$ 1.59	$ 1.27	$ 3.95	$ 3.13
Diluted EPS computation:				
Basic weighted average common shares outstanding	56,458	60,573	58,150	61,342
Stock options, stock appreciation rights and restricted stock units	246	382	283	462
Diluted weighted average common shares outstanding	56,704	60,955	58,433	61,804
Diluted EPS	$ 1.58	$ 1.26	$ 3.93	$ 3.11

Approximately 227,000, 252,000, 370,000 and 215,000 shares issuable under stock-based awards were not included in the diluted EPS calculation at the end of the Third Quarter, Year To Date Period, Prior Year Quarter and Prior Year YTD Period, respectively, because they were antidilutive.

Restricted Cash. As of September 28, 2013 and December 29, 2012, the Company had short-term restricted cash balances of $41,000 and $0.3 million, respectively, and long-term restricted cash balances of $0.7 million and $1.0 million, respectively, primarily pledged as collateral to secure bank guarantees for the purpose of obtaining retail space. Short-term restricted cash is reported in prepaid expenses and other current assets in the Company s condensed consolidated balance sheets as a component of current assets. Long-term restricted cash is reported in intangible and other assets-net in the Company s condensed consolidated balance sheets as a component of long-term assets.

Recently Issued Accounting Standards. In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). ASU 2013-11 requires, unless certain conditions exist, an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance in ASU 2013-11 will become effective for the Company prospectively for annual periods beginning after December 15, 2013, and interim periods within those years, with early adoption permitted. Retrospective application is also permitted. The Company is currently assessing the impact, if any, the adoption of ASU 2013-11 will have on its condensed consolidated results of operations and financial position.

In March 2013, FASB issued ASU 2013-05, *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* (ASU 2013-05). ASU 2013-05 addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance outlines the events when cumulative translation adjustments should be released into net income and is intended by FASB to eliminate some disparity in current accounting practice. The guidance in ASU 2013-05 will become effective for the Company for annual periods beginning after December 15, 2013, and interim periods within those years. The Company will apply the

guidance prospectively to any derecognition events that may occur after the effective date and does not expect the adoption of ASU 2013-05 to have a material impact on the Company s condensed consolidated results of operations or financial position.

In December 2011, FASB issued ASU 2011-11, *Balance Sheet (Topic 210)*: *Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11), to address certain comparability issues between financial statements prepared in accordance with GAAP and those prepared in accordance with International Financial Reporting Standards. In January 2013, FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01), which clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. ASU 2011-11 will require an entity to provide enhanced disclosures about certain financial instruments and derivatives, as defined in ASU 2013-01, to enable users to understand the effects of offsetting in the financial statements as well as the effects of master netting arrangements on an entity s financial condition. The amendments in ASU 2011-11 and ASU 2013-01 are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those years, with respective disclosures required for all comparative periods presented. The Company does not expect the adoption of ASU 2011-11 and ASU 2013-01 to have a material impact on the Company s condensed consolidated results of operations or financial position.

Recently Adopted Accounting Standards. In July 2012, FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). The amendments in this update permit an entity to make a qualitative assessment to determine if it is more likely than not that an indefinite-lived intangible asset other than goodwill is impaired. If an entity concludes that it is more likely than not that the fair value of an indefinite-lived intangible asset other than goodwill is less than its carrying amount, it is required to perform the quantitative impairment test for that asset. This ASU aligns the guidance of impairment testing for indefinite-lived intangible assets other than goodwill with that in ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (ASU 2011-08). The guidance in ASU 2012-02 was effective for the Company beginning December 30, 2012 and did not have a material impact on the Company s condensed consolidated results of operations or financial position.

In February 2013, FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). FASB issued ASU 2013-02 to improve the transparency of changes in other comprehensive income (OCI) and items reclassified out of accumulated other comprehensive income (AOCI) in financial statements. ASU 2013-12 requires an entity to provide information about amounts reclassified out of AOCI by component. In addition, an entity must present either on the face of the income statement or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income. See Note 6 Stockholders Equity and Benefit Plans for additional disclosures about the Company s OCI. The guidance in ASU 2013-02 became effective for the Company on December 30, 2012 and did not have a material impact on the Company s condensed consolidated results of operations or financial position.

2. ACQUISITIONS, DIVESTITURE AND GOODWILL

Skagen Designs, Ltd. Acquisition. On April 2, 2012, the Company acquired Skagen Designs, Ltd. and certain of its international affiliates (Skagen Designs). Skagen Designs was a privately held Nevada-based company that globally marketed and distributed contemporary Danish design accessories including watches, clocks, jewelry and sunglasses. The primary purpose of the acquisition was to add an attractive brand to the Company s portfolio that the Company could grow using its established distribution channels. The purchase price was $231.7 million in cash and 150,000 shares of the Company s common stock valued at $19.9 million based on the mean between the highest and lowest sales price of the Company s common stock on NASDAQ on April 2, 2012. To fund the cash purchase price, the Company utilized approximately $200 million of availability under its revolving line of credit and excess cash available in its international subsidiaries to fund the international portion of the purchase price. In addition, subject to the purchase agreement, the sellers could have received up to 100,000 additional shares of the Company s common stock if the Company s net sales of SKAGEN® branded products exceeded certain thresholds over a defined period of time (the Earnout).

The Company recorded the Earnout as a $9.9 million contingent consideration liability in accrued expenses-other in the Company s condensed consolidated balance sheets as of the acquisition date. As of December 29, 2012, the contingent consideration liability was remeasured at zero, which resulted in a decrease in operating expenses of $9.9 million during fiscal year 2012. During fiscal year 2013, the contingent consideration liability remained valued at zero as the Earnout criteria was not met. The results of Skagen Designs operations have been included in the

Company s consolidated financial statements since April 2, 2012.

Prior to closing the Skagen Designs acquisition, the Company incurred approximately $600,000 of acquisition-related expenses for legal, accounting and valuation services during fiscal year 2011 and the first quarter of fiscal year 2012. The Company incurred additional acquisition and integration related costs of approximately $8.2 million in fiscal year 2012, subsequent to the closing date. Acquisition and integration costs were reflected in general and administrative expenses on the Company s condensed consolidated statements of comprehensive income. There were no acquisition and integration costs incurred during the Year To Date Period.

During the first quarter of fiscal year 2013, the Company finalized the purchase accounting for the acquisition, with no change since fiscal year end 2012. Assets acquired and liabilities assumed in the transaction were recorded at their acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred.

Because the total purchase price exceeded the fair values of the tangible and intangible assets acquired, goodwill was recorded equal to the difference. The element of goodwill that is not separable into identifiable intangible assets represents expected synergies. The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and the liabilities assumed as of April 2, 2012, the effective date of the acquisition (in thousands):

Cash paid, net of cash acquired	$	229,012
Value of common stock issued		19,899
Contingent consideration		9,950
Total transaction consideration:	$	258,861
Accounts receivable	$	16,595
Inventories		22,638
Prepaid expenses and other current assets		3,306
Property, plant and equipment		4,232
Goodwill		140,387
Trade name		64,700
Customer lists		24,400
Patents		1,500
Noncompete agreement		1,900
Other long-term assets		2,972
Current liabilities		(20,840)
Long-term liabilities		(2,929)
Total net assets acquired	$	258,861

The goodwill and trade name assets recognized from the acquisition have indefinite useful lives, were tested for impairment at fiscal year end 2012 and will continue to be tested for impairment annually or on an interim basis if indicators are present. The amortization periods for the acquired customer lists, patents and noncompete agreements range from three years to nine years. Approximately $133.8 million of the goodwill recognized in the acquisition is expected to be deductible for tax purposes.

The following unaudited pro forma information presents the combined results of operations of Fossil Group, Inc. and Skagen Designs as if the acquisition had occurred at the beginning of the prior year period. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed at the beginning of the prior year period presented below. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operating results of Fossil Group, Inc. The unaudited pro forma information does not give effect to any potential cost savings or other operating efficiencies that could result from the acquisition. The following table presents the unaudited pro forma financial information (in thousands, except per share data):

		For the 39 Weeks Ended September 29, 2012
Net sales	$	1,940,251
Net income attributable to Fossil Group, Inc.		197,861
Earnings per share:		
Basic	$	3.23
Diluted	$	3.20

Fossil Spain Acquisition. On August 10, 2012, the Company s joint venture company, Fossil, S.L. (Fossil Spain), entered into a Framework Agreement (the Framework Agreement) with several related and unrelated parties, including General De Relojeria, S.A. (General De Relojeria),

the Company s joint venture partner. Pursuant to the Framework Agreement, Fossil Spain was granted the right to acquire the outstanding 50% of its shares owned by General De Relojeria upon the expiration of the joint venture agreement on December 31, 2015. Upon the acquisition of these shares, Fossil Spain will become a wholly owned subsidiary of the Company.

Effective January 1, 2013, pursuant to the Framework Agreement, the Company assumed control over the board of directors and the day-to-day management of Fossil Spain. As a result of this change, the Company now controls Fossil Spain and began consolidating it in accordance with ASC 810, *Consolidation*, instead of treating it as an equity method investment.

In accordance with ASC 805, *Business Combinations*, the Company remeasured its preexisting investment in Fossil Spain to fair value as of January 1, 2013, resulting in a gain of $6.5 million, which was recorded in other income-net on the Company s condensed consolidated statements of comprehensive income. The results of Fossil Spain s operations have been included in the Company s condensed consolidated financial statements since January 1, 2013. The Company recorded approximately $10.6 million of goodwill related to the acquisition.

The purchase price for the shares has a fixed and variable component. The fixed portion is based on 50% of the net book value of Fossil Spain as of December 31, 2012. The fixed portion was measured at 5.2 million Euros (approximately $6.8 million at the purchase date). The Company recorded a contingent consideration liability of 5.9 million Euros (approximately $7.8 million at the purchase date) related to the variable portion of the purchase price as of January 1, 2013. The variable portion will be determined based on Fossil Spain s aggregated results of operations less dividends distributed by Fossil Spain to General De Relojeria with a minimum annual variable price of 2.0 million Euros (approximately $2.6 million at the purchase date) and a maximum annual variable price of 3.5 million Euros (approximately $4.6 million at the purchase date) for each of the calendar years 2013, 2014, and 2015. See Note 9 Fair Value Measurements for additional information about the contingent consideration liability for Fossil Spain.

Of the total consideration for Fossil Spain, 2.2 million Euros (approximately $3.0 million) relating to the contingent consideration for calendar year 2013 was recorded in accrued expenses other, and 8.9 million Euros (approximately $12.0 million) of the total consideration was recorded in other long-term liabilities in the condensed consolidated balance sheets at September 28, 2013.

Bentrani Watches, LLC Acquisition. On December 31, 2012, the Company purchased substantially all of the assets of Bentrani Watches, LLC (Bentrani). Bentrani was a distributor of watch products in 16 Latin American countries and was based in Miami, Florida. Bentrani was the Company s largest third-party distributor and had partnered with the Company for ten years. The purchase price was $26.0 million, comprised of $18.7 million in cash and $7.3 million in forgiveness of a payable to the Company. The Company recorded approximately $8.3 million of goodwill related to the acquisition. The results of Bentrani s operations have been included in the Company s condensed consolidated financial statements since the acquisition date. On June 28, 2013, the Company also obtained control of Bentrani Chile SpA (Bentrani Chile), and the results of Bentrani Chile s operations have been included in the Company s condensed consolidated financial statements since that date. The terms of the Bentrani Chile acquisition were not significant.

Swiss Technology Components AG Divestiture. On April 24, 2013, Swiss Technology Holding GmbH (STH), a wholly owned subsidiary of the Company, sold 80% of STH s share in Swiss Technology Components AG (STC). During the second quarter of fiscal year 2013, STC was deconsolidated as a result of the Company s termination of control and is now accounted for under the cost method.

Goodwill is the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The changes in the carrying amount of goodwill, which is not subject to amortization, were as follows (in thousands):

	North America wholesale	Europe wholesale	Asia Pacific wholesale	Total
Balance at December 29, 2012	$ 109,270	$ 63,884	$ 11,639	$ 184,793
Acquisitions	8,265	10,641	0	18,906
Foreign currency changes	(19)	1,322	(27)	1,276
Balance at September 28, 2013	$ 117,516	$ 75,847	$ 11,612	$ 204,975

3. INVENTORIES

Inventories consisted of the following (in thousands):

	September 28, 2013	December 29, 2012
Components and parts	$ 49,658	$ 62,731
Work-in-process	9,600	8,071
Finished goods	597,327	435,512
Inventories	$ 656,585	$ 506,314

4. WARRANTY RESERVE

The Company s warranty liabilities are primarily related to watch products. The Company s FOSSIL® watch products sold in the U.S. are covered by a limited warranty against defects in materials or workmanship for a period of 11 years from the date of purchase. RELIC® watch products sold in the U.S. are covered by a comparable 12 year warranty, while certain other watches sold by the Company are covered by a comparable two year limited warranty. SKAGEN branded watches are covered by a lifetime warranty against defects due to faulty material or workmanship, subject to normal conditions of use. The Company s warranty liability is recorded using historical warranty repair expense and is recorded in accrued expenses-other in the condensed consolidated balance sheets. As changes in warranty costs are experienced, the warranty accrual is adjusted as necessary. Warranty liability activity consisted of the following (in thousands):

	For the 39 Weeks Ended	
	September 28, 2013	**September 29, 2012**
Beginning balance	$ 13,383	$ 10,996
Settlements in cash or kind	(7,624)	(4,591)
Warranties issued and adjustments to preexisting warranties (1)	8,622	6,561
Liabilities assumed in acquisition	340	595
Ending balance	$ 14,721	$ 13,561

(1) Changes in cost estimates related to preexisting warranties are aggregated with accruals for new standard warranties issued and foreign currency changes.

5. INCOME TAXES

The Company s income tax expense and related effective rate were as follows (in thousands, except percentage data):

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 28, 2013	**September 29, 2012**	**September 28, 2013**	**September 29, 2012**
Income tax expense	$ 45,881	$ 33,984	$ 108,604	$ 85,213
Income tax rate	33.2%	29.8%	31.4%	29.7%

The higher effective tax rate in the Third Quarter and the Year To Date Period was primarily due to the impact of adjusting the estimated full year rate to reflect a shift in geographical earnings mix.

As of September 28, 2013, the total amount of unrecognized tax benefits, excluding interest and penalties, was $10.0 million, of which $6.1 million would favorably impact the effective tax rate in future periods, if recognized. The U.S. Internal Revenue Service completed its examination of the Company s 2007-2009 federal income tax returns, and the Company has settled all outstanding federal income tax liabilities for those years. The Company is subject to examinations in various state and foreign jurisdictions for its 2006-2012 tax years, none of which the Company believes are individually significant. Audit outcomes and timing of audit settlements are subject to significant uncertainty.

The Company has classified uncertain tax positions as long-term income taxes payable, unless such amounts are expected to be paid within twelve months of the condensed consolidated balance sheet date. As of September 28, 2013, the Company had recorded $0.2 million of unrecognized tax benefits, excluding interest and penalties, for positions that could be settled within the next twelve months. Consistent with its past practice, the Company recognizes interest and/or penalties related to income tax overpayments and income tax underpayments in income tax expense and income taxes receivable/payable, respectively. The total amount of accrued income tax-related interest and penalties included in the condensed consolidated balance sheets at September 28, 2013 was $1.0 million and $0.3 million, respectively. For the Third Quarter, the Company accrued income tax-related interest expense of $0.1 million.

6. STOCKHOLDERS EQUITY AND BENEFIT PLANS

Common Stock Repurchase Programs. Purchases of the Company s common stock are made from time to time pursuant to its repurchase programs, subject to market conditions and at prevailing market prices, through the open market. Repurchased shares of common stock are recorded at cost and become authorized but unissued shares which may be issued in the future for general corporate or other purposes. The Company may terminate or limit its stock repurchase program at any time. In the event the repurchased shares are cancelled, the Company accounts for retirements by allocating the repurchase price to common stock, additional paid-in capital and retained earnings.

The repurchase price allocation is based upon the equity contribution associated with historical issuances. The repurchase programs are conducted pursuant to Rule 10b-18 of the Exchange Act.

During the Year To Date Period, the Company effectively retired 4.3 million shares of common stock repurchased under its repurchase programs. The effective retirement of repurchased common stock decreased common stock by $42,700, additional paid-in capital by $6.2 million, retained earnings by $447.7 million and treasury stock by $454.0 million. At December 29, 2012 and September 28, 2013, all treasury stock had been effectively retired. As of September 28, 2013, the Company had $614.6 million of repurchase authorizations remaining under the combined repurchase plans.

The following table reflects the Company s common stock repurchase activity for the periods indicated (in millions):

			For the 13 Weeks Ended September 28, 2013		For the 39 Weeks Ended September 28, 2013	
Fiscal Year Authorized	**Dollar Value Authorized**	**Termination Date**	**Number of Shares Repurchased**	**Dollar Value Repurchased**	**Number of Shares Repurchased**	**Dollar Value Repurchased**
2012	$ 1,000.0	December 2016	2.0	$ 228.2	3.9	$ 415.4
2010	$ 30.0	None	0.0	$ 0.0	0.0	$ 0.0
2010	$ 750.0	December 2013(1)	0.0	$ 0.0	0.4	$ 38.6

(1) In the first quarter of fiscal year 2013, the Company completed this repurchase plan.

Stock-Based Compensation Plans. The Company accounts for stock-based compensation in accordance with the provisions of ASC 718, *Compensation-Stock Compensation* (ASC 718), using the Black-Scholes option pricing model to determine the fair value of stock options and stock appreciation rights at the date of grant. Grants under the Company s stock-based compensation plans generally include: (i) stock options, restricted stock and restricted stock units for its international employees, (ii) restricted stock units for its non-employee directors and (iii) stock appreciation rights, restricted stock and restricted stock units for its U.S.-based employees.

The following table summarizes stock options and stock appreciation rights activity during the Third Quarter:

Stock Options and Stock Appreciation Rights	**Number of Shares in thousands**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value in thousands**
Outstanding at June 29, 2013	823	$ 72.14	6.3	$ 31,815
Granted	3	108.15		
Exercised	(49)	39.05		3,934
Forfeited or expired	(28)	101.50		
Outstanding at September 28, 2013	749	73.42	6.2	34,909
Exercisable at September 28, 2013	451	$ 56.95	5.4	$ 27,838

The aggregate intrinsic value shown in the table above is before income taxes and is based on (i) the exercise price for outstanding and exercisable options/rights at September 28, 2013 and (ii) the fair market value of the Company s common stock on the exercise date for options/rights that were exercised during the Third Quarter.

Stock Options and Stock Appreciation Rights Outstanding and Exercisable. The following table summarizes information with respect to stock options and stock appreciation rights outstanding and exercisable at September 28, 2013:

Range of Exercise Prices	Stock Options Outstanding Number of Shares in thousands	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Stock Options Exercisable Number of Shares in thousands	Weighted-Average Exercise Price		
$13.65 - $21.51	89	$ 15.38	4.6	68	$ 15.93		
$21.51 - $34.59	82	28.70	3.1	82	28.70		
$34.59 - $67.10	85	39.66	5.9	85	39.66		
$67.10 - $106.40	126	81.04	7.5	71	80.85		
$106.40 - $131.46	184	128.08	8.3	66	128.08	$ 395,863 $	$ 2,244,371

Revenue, net of other direct costs	1,359,156	67,182		1,426,338
Gross profit	669,975	26,012		695,987
Gross profit as a % of revenue	36.2%	6.6%		31.0%
Gross profit as a % of revenue, net of other direct costs	49.3%	38.7%		48.8%
Equity in earnings of joint ventures	3,708	3,142		6,850
General and administrative expenses	561,907	11,742	25,697	599,346
Operating income	111,776	17,412	(25,697)	103,491
Segment assets	2,246,431	198,919	256,583	2,701,933
Six Months Ended March 31, 2007:				
Revenue	$ 1,597,087	$ 425,171	$	$ 2,022,258
Revenue, net of other direct costs	1,043,906	48,710		1,092,616
Gross profit	511,331	20,959		532,290
Gross profit as a % of revenue	32.0%	4.9%		26.3%
Gross profit as a % of revenue, net of other direct costs	49.0%	43.0%		48.7%
Equity in earnings of joint ventures	(104)	3,740		3,636
General and administrative expenses	435,943	11,806	20,225	467,974
Operating income	75,284	12,893	(20,225)	67,952

10. 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 fair value of employee stock options and similar awards. Under SFAS 123R, share-based payment (SBP) awards result in a cost that will be measured at fair value on the awards grant dates, based on the estimated number of awards that are expected to vest.

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

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

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

The fair value of the Company s stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The expected term of awards granted represents the period of time the awards are expected to be outstanding. As the Company s common stock has only recently become publicly-traded, expected volatility was based on a historical

volatility, for a period consistent with the expected option term, of publicly-traded peer companies. The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the option on the grant date. The Company uses historical data as a basis to estimate the probability of forfeitures.

The fair value of options granted during the three and six months ended March 31, 2008 and 2007 were determined using the following weighted average assumptions:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Dividend yield				
Expected volatility	33%	25%	33%	25%
Risk-free interest rate	3.5	4.6	3.5	4.6
Term (in years)	4.5	7	4.5	7

Under SFAS 123R, the Company s net income for the six months ended March 31, 2008 and 2007 was $0.6 million and $0.3 million lower than under the Company s previous accounting method, as a result of recognizing the fair value of stock options as an expense.

Stock option activity for the six months ended March 31, 2008 and 2007 was as follows:

	Six Months Ended March 31, 2008		Six Months Ended March 31, 2007	
	Shares of stock under options (in thousands)	Weighted average exercise price	Shares of stock under options (in thousands)	Weighted average exercise price
Outstanding at September 30	7,728	$ 9.27	8,929	$ 8.42
Options granted	464	27.38	549	14.13
Options exercised	1,107	7.27	383	7.60
Options forfeited or expired	38	15.90	25	13.62
Outstanding at March 31	7,047	10.75	9,070	8.79
Vested and expected to vest in the future as of March 31	7,024	$ 10.72	9,059	$ 8.78

The weighted average grant-date fair value of stock options granted during the six months ended March 31, 2008 was $8.76.

11. 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.

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

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

	Three Months Ended		Six Months Ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
	(in thousands, except per share data)			
Denominator for basic earnings per share	100,571	56,331	100,108	56,965
Potential common shares:				
Preferred stock, Class F and G		18,747		18,747
Stock options	2,780	2,462	3,008	2,348
Other	103	424	124	440
Denominator for diluted earnings per share	103,454	77,964	103,240	78,500

For the six months ended March 31, 2008 and 2007, no stock options were excluded from the calculation or were considered anti-dilutive.

12. 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 or results of operations of the Company.

At March 31, 2008, the Company was contingently liable in the amount of approximately $83.5 million under standby letters of credit issued primarily in connection with general and professional liability insurance programs and for payment and performance guarantees relating to domestic and overseas contracts. In addition, in some instances the Company guarantees that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards.

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

13. Income Taxes

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

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

As of March 31, 2008, the liability for income tax associated with uncertain tax positions was $36.3 million and the related interest on the liability was $2.3 million (net of related tax benefits). If recognized, $35.2 million of these amounts would be recorded as a benefit to income taxes on the Condensed Consolidated Statement of Income and, therefore would reduce the Company s future effective tax rate. The remaining $3.4 million would reduce deferred tax balances and amounts primarily arising from business combinations which, if recognized, would be recorded as reductions to goodwill.

The Company s continuing practice is to recognize interest and penalties related to uncertain tax positions in tax expense. At adoption, the Company had accrued $1.6 million of interest and penalties (net of $1.0 million tax benefit) related to uncertain tax positions and, as of March 31, 2008, the Company had accrued $2.3 million of interest and penalties (net of $1.4 million tax benefit) related to uncertain tax positions.

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

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

14. Recently Issued Accounting Pronouncements

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

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

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 will be effective for the Company as of October 1, 2008. The Company is currently evaluating the potential impact of the provisions of SFAS 159 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. The provisions of SFAS 157 will be effective for the Company as of October 1, 2008. The Company is currently evaluating the potential impact of the provisions of SFAS 157 on its financial statements.

15. Subsequent Events

As discussed in Note 4 Business Acquisitions, subsequent to the second fiscal quarter 2008, the Company completed the acquisitions of Boyle and TSH.

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 regulations or legislation that could affect us. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. In addition to the other risks and uncertainties mentioned in connection with certain forward-looking statements throughout this Quarterly Report, please review Part II, Item 1A Risk Factors in this Quarterly Report for a discussion of the factors, risks and uncertainties that could affect our future results.

Overview

We are a leading global provider of professional technical and management support services for commercial and government clients around the world. We provide our services in a broad range of end markets and strategic geographic markets through a global network of operating offices and more than 35,000 employees and staff employed in the field on projects.

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

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

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

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

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

Components of Income and Expense

Our management internally analyzes the results of operations using several non-GAAP measures. A significant portion of our revenue relates to services provided by subcontractors and other non-employees that the Company categorizes as other direct costs. Those pass-through costs are typically paid to service providers upon our receipt of payment from the client. Other direct costs are segregated from cost of revenue resulting in revenue, net of other direct costs, which is a

measure of work performed by AECOM employees. We have included information on revenue, net of other direct costs, as we believe that it is useful to view revenue, exclusive of costs associated with external service providers.

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

	Six Months Ended March 31,		Year Ended September 30,				
	2008	2007	2007	2006	2005	2004	2003
				(in millions)			
Other Financial Data:							
Revenue	$ 2,244	$ 2,022	$ 4,237	$ 3,421	$ 2,395	$ 2,012	$ 1,915
Other direct costs	818	929	1,832	1,521	933	776	725
Revenue, net of other direct costs	1,426	1,093	2,405	1,900	1,462	1,236	1,190
Cost of revenue, net of other direct costs	730	561	1,244	994	785	667	656
Gross profit	696	532	1,161	906	677	569	534
Equity in earnings of joint ventures	6	4	12	6	2	3	2
Amortization expense of acquired intangible assets	2	6	12	15	3		
Other general and administrative expenses	597	462	1,005	794	578	485	467
General and administrative expenses	599	468	1,017	809	581	485	467
Income from operations	$ 103	$ 68	$ 156	$ 103	$ 98	$ 87	$ 69
Reconciliation of Cost of Revenue:							
Other direct costs	$ 818	$ 929	$ 1,832	$ 1,521	$ 933	$ 776	$ 725
Cost of revenue, net of other direct costs	730	561	1,244	994	785	667	656
Cost of revenue	$ 1,548	$ 1,490	$ 3,076	$ 2,515	$ 1,718	$ 1,443	$ 1,381

Results of Operations

Consolidated Results

	Three Months Ended				Six Months Ended			
	March 31, 2008	March 31, 2007	Change $	%	March 31, 2008	March 31, 2007	Change $	%
	(in thousands)							
Revenue	$ 1,164,121	$ 1,083,709	$ 80,412	7.4%	$ 2,244,371	$ 2,022,258	$ 222,113	11.0%
Other direct costs	413,369	494,227	(80,858)	(16.4)	818,033	929,642	(111,609)	(12.0)
Revenue, net of other direct costs	750,752	589,482	161,270	27.4	1,426,338	1,092,616	333,722	30.5
Cost of revenue, net of other direct costs	381,357	305,611	75,746	24.8	730,351	560,326	170,025	30.3
Gross profit	369,395	283,871	85,524	30.1	695,987	532,290	163,697	30.8
Equity in earnings of joint ventures	4,008	2,219	1,789	80.6	6,850	3,636	3,214	88.4
General and administrative expenses	314,444	248,146	66,298	26.7	599,346	467,974	131,372	28.1
Income from operations	58,959	37,944	21,015	55.4	103,491	67,952	35,539	52.3
Minority interest in share of earnings	4,798	3,648	1,150	31.5	6,077	5,234	843	16.1
Other expense	813		813	n/a	1,628		1,628	n/a
Gain on sale of equity investment				n/a		11,286	(11,286)	(100.0)
Interest income (expense) and other, net	2,061	(2,228)	4,289	(192.5)	4,309	(3,303)	7,612	(230.5)
Income before income tax expense	55,409	32,068	23,341	72.8	100,095	70,701	29,394	41.6
Income tax expense	19,580	10,870	8,710	80.1	34,773	23,983	10,790	45.0
Net income	$ 35,829	$ 21,198	$ 14,631	69.0%	$ 65,322	$ 46,718	$ 18,604	39.8%

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	50.8	51.8	51.2	51.3
Gross profit	49.2	48.2	48.8	48.7
Equity in earnings of joint ventures	0.5	0.4	0.5	0.3
General and administrative expense	41.8	42.2	42.0	42.8
Income from operations	7.9	6.4	7.3	6.2
Minority interest in share of earnings	0.6	0.6	0.4	0.5
Gain on sale of equity investment	0.0	0.0	0.0	1.0
Interest income (expense) and other net	0.1	(0.4)	0.1	(0.2)
Income before income tax expense	7.4	5.4	7.0	6.5
Income tax expense	2.6	1.8	2.4	2.2
Net income	4.8%	3.6%	4.6%	4.3%

Revenue

Our revenue for the three months ended March 31, 2008 increased $80.4 million, or 7.4%, to $1.2 billion as compared to $1.1 billion for the corresponding period last year. Of this increase, $69.6 million, or 86.6%, was provided by companies acquired in the past twelve months. Excluding the revenue provided by acquired companies, revenue increased $10.8 million, or 1.0%.

Our revenue for the six months ended March 31, 2008 increased $222.1 million, or 11.0%, to $2.2 billion as compared to $2.0 billion for the corresponding period last year. Of this increase, $122.0 million, or 54.9%, was provided by companies acquired in the past twelve months. Excluding the revenue provided by acquired companies, revenue increased $100.1 million, or 5.0%.

These increases were primarily attributable to growth in our Professional Technical Services segment due to higher government spending for highway and transit infrastructure projects in Australia, an increase in demand for our environmental management services in all of our geographic markets, greater volumes of work performed in our planning and urban design business, and continued strength in our engineering design services business in the United Arab Emirates. Increased demand in these markets was largely offset by a decline in our design/build services business due to the completion of a significant educational facility project in the fourth quarter of fiscal 2007 and a decrease in activity on our Global Maintenance and Supply Services task order in Iraq.

Revenue, Net of Other Direct Costs

Our revenue, net of other direct costs for the three months ended March 31, 2008 increased $161.3 million, or 27.4%, to $750.8 million as compared to $589.5 million in the corresponding period last year. Of this increase, $54.5 million, or 33.8%, was provided by companies acquired in the past twelve months. Excluding the revenue, net of other direct costs provided by acquired companies, revenue, net of other direct costs increased $106.8 million, or 18.1%.

Our revenue, net of other direct costs for the six months ended March 31, 2008 increased $333.7 million, or 30.5%, to $1.4 billion as compared to $1.1 billion in the corresponding period last year. Of this increase, $95.3 million, or 28.6%, was provided by companies acquired in the past twelve months. Excluding the revenue, net of other direct costs provided by acquired companies, revenue, net of other direct costs increased $238.4 million, or 21.8%.

These increases were primarily due to strong demand in the markets noted above, resulting in increased project staffing. The larger percentage increases in revenue, net of other direct costs, compared to the increases in revenue during the same period results from a lower offsetting effect of the decline in demand for our design/build services business which contain a proportionately higher component of subcontractor costs.

Cost of Revenue, Net of Other Direct Costs

For the three months ended March 31, 2008, our cost of revenue, net of other direct costs increased $75.7 million, or 24.8%, to $381.3 million as compared to $305.6 million in the corresponding period last year. Of this increase, $24.4 million, or 32.2%, was incurred by companies acquired in the past twelve months. Excluding cost of revenue, net of

other direct costs associated with acquired companies, cost of revenue, net of other direct costs increased $51.3 million, or 16.8%. For the three months ended March 31, 2008, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 50.8% as compared to 51.8% in the corresponding period last year.

For the six months ended March 31, 2008, our cost of revenue, net of other direct costs increased $170.0 million, or 30.3%, to $730.3 million as compared to $560.3 million in the corresponding period last year. Of this increase, $42.0 million, or 24.7%, was incurred by companies acquired in the past twelve months. Excluding cost of revenue, net of other direct costs associated with acquired companies, cost of revenue, net of other direct costs increased $128.0 million, or 22.9%. For the six months ended March 31, 2008, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 51.2% as compared to 51.3% in the corresponding period last year.

Gross Profit

Our gross profit for the three months ended March 31, 2008 increased $85.5 million, or 30.1%, to $369.4 million as compared to $283.9 million in the corresponding period last year. Of this increase, $30.0 million, or 35.1% was provided by companies acquired in the past 12 months. Excluding gross profit provided by acquired companies, gross profit increased $55.5 million, or 19.5%. For the three months ended March 31, 2008, gross profit, as a percentage of revenue, net of other direct costs, was 49.2% as compared to 48.2% in the corresponding period last year.

Our gross profit for the six months ended March 31, 2008 increased $163.7 million, or 30.8%, to $696.0 million as compared to $532.3 million in the corresponding period last year. Of this increase, $53.4 million, or 32.6% was provided by companies acquired in the past 12 months. Excluding gross profit provided by acquired companies, gross profit increased $110.3 million, or 20.7%. For the six months ended March 31, 2008, gross profit, as a percentage of revenue, net of other direct costs, was 48.8% as compared to 48.7% in the corresponding period last year.

These increases in gross profit for the three and six months ended March 31, 2008 were primarily attributable to the increases in revenue, net of other direct costs for the respective periods. The increases in gross profit, as a percentage of revenue, net of other direct costs, were primarily attributable to the increased demand for our environmental management and planning and urban design services which typically experience higher gross profit margins, and the favorable resolution in March 2008 of a claim on a U.S. government project, partially offset by lower margins in our design/build services business resulting from a decline in revenue.

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended March 31, 2008 increased $1.8 million, or 80.6%, to $4.0 million as compared to $2.2 million in the corresponding period last year.

Our equity in earnings of joint ventures for the six months ended March 31, 2008 increased $3.2 million, or 88.4%, to $6.8 million as compared to $3.6 million in the corresponding period last year.

The increases were primarily attributable to increased joint venture activity in the Middle East and improved performance in a European joint venture that was in its initial phase in the prior year s corresponding period.

General and Administrative Expenses

Our general and administrative expenses for the three months ended March 31, 2008 increased $66.3 million, or 26.7%, to $314.4 million as compared to $248.1 million in the corresponding period last year. Of this increase, $23.8 million, or 35.9%, was incurred by companies acquired in the past twelve months. Excluding general and administrative expenses associated with acquired companies, general and administrative expenses increased $42.5 million, or 17.1%. For the three months ended March 31, 2008, general and administrative expenses, as a percentage of revenue, net of other direct costs was 41.8% as compared to 42.2% in the corresponding period last year.

Our general and administrative expenses for the six months ended March 31, 2008 increased $131.4 million, or 28.1%, to $599.3 million as compared to $467.9 million in the corresponding period last year. Of this increase, $43.7 million, or 33.2%, was incurred by companies acquired in the past twelve months. Excluding general and administrative expenses associated with acquired companies, general and administrative expenses increased $87.7 million, or 18.7%. For the six months ended March 31, 2008, general and administrative expenses, as a percentage of revenue, net of other direct costs was 42.0% as compared to 42.8% in the corresponding period last year.

These increases in general and administrative expenses were primarily attributable to the growth in revenue noted above, continued investments throughout the organization to support strategic initiatives and expenses incurred related to our becoming a public reporting company, including compliance efforts related to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The decreases in general and administrative expenses, as a percentage of revenue, net of other direct costs, reflects the benefits realized from our continuing cost efficiency initiatives.

Gain on Sale of Equity Investment

In December 2006, we sold our minority interest in an equity investment in the United Kingdom for 7.5 million GBP, or approximately $14.7 million. Related to this sale, we recorded a gain on the sale of $11.3 million.

Other Expense

Other expense of $0.8 million and $1.6 million for the three and six months ended March 31, 2008, respectively, includes net losses on investments that we hold to offset our exposure related to employees investment elections in a deferred compensation plan.

Interest Income / Expense

Our net interest income for the three months ended March 31, 2008 was $2.1 million as compared to $2.2 million of net interest expense in the corresponding period last year.

Our net interest income for the six months ended March 31, 2008 was $4.3 million as compared to $3.3 million of net interest expense in the corresponding period last year.

The increase in interest income for both periods was primarily attributable to the reduced interest expense due to the repayment of borrowings and increased interest income from investing activity which were both the result of proceeds received in our initial public offering completed in May 2007.

Income Tax Expense

For the three and six months ended March 31, 2008, income tax expense increased $8.7 million, or 80.1%, and $10.8 million, or 45.0%, compared to the same periods last year, respectively. The increase in our income tax expense related primarily to higher income and non-deductible investment losses.

The effective tax rate for the three and six months ended March 31, 2008 was 35.3% and 34.7%, respectively, as compared to 33.9% for each respective corresponding period last year due to the factors discussed above.

Net Income

Net income for the three and six months ended March 31, 2008 increased $14.6 million, or 69.0%, to $35.8 million and $18.6 million, or 39.8%, to $65.3 million, respectively, as compared to the corresponding periods last year.

Results of Operations by Reportable Segment:

Professional Technical Services

	Three Months Ended				Six Months Ended			
	March 31, 2008	March 31, 2007	Change $	%	March 31, 2008	March 31, 2007	Change $	%
	(in thousands)							
Revenue	$ 955,067	$ 843,218	$ 111,849	13.3%	$ 1,848,508	$ 1,597,087	$ 251,421	15.7%
Other direct costs	244,436	282,359	(37,923)	(13.4)	489,352	553,181	(63,829)	(11.5)
Revenue, net of other direct costs	710,631	560,859	149,772	26.7	1,359,156	1,043,906	315,250	30.2
Cost of revenue, net of other direct costs	359,944	289,830	70,114	24.2	689,181	532,575	156,606	29.4
Gross profit	$ 350,687	$ 271,029	$ 79,658	29.4%	$ 669,975	$ 511,331	$ 158,644	31.0%

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	50.7	51.7	50.7	51.0
Gross profit	49.3%	48.3%	49.3%	49.0%

Revenue

Revenue for our PTS segment for the three months ended March 31, 2008 increased $111.8 million, or 13.3%, to $955.0 million as compared to $843.2 million in the corresponding period last year. Of this increase, $69.6 million, or 62.3%, was provided by companies acquired in the past twelve months. Excluding revenue provided by acquired companies, PTS revenue increased $42.2 million, or 5.0%.

Revenue for our PTS segment for the six months ended March 31, 2008 increased $251.4 million, or 15.7%, to $1.8 billion as compared to $1.6 billion in the corresponding period last year. Of this increase, $122.0 million, or 48.5%, was provided by companies acquired in the past twelve months. Excluding revenue provided by acquired companies, PTS revenue increased $129.4 million, or 8.1%.

These increases were primarily attributable to higher government spending for highway and transit infrastructure projects in Australia, an increase in demand for our environmental management services in all of our geographic markets, greater volumes of work performed in our planning and urban design business, and continued strength in our engineering design services business in the United Arab Emirates. Increased demand in these markets was partially offset by a decline in our design/build services business due to the completion of a significant educational facility project in the fourth quarter of fiscal 2007.

Revenue, Net of Other Direct Costs

Revenue, net of other direct costs for our PTS segment for the three months ended March 31, 2008 increased $149.8 million, or 26.7%, to $710.6 million as compared to $560.8 million in the corresponding period last year. Of this increase, $54.5 million, or 36.4%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs provided by acquired companies, PTS revenue, net of other direct costs increased $95.3 million, or 17.0%.

Revenue, net of other direct costs for our PTS segment for the six months ended March 31, 2008 increased $315.2 million, or 30.2%, to $1.4 billion as compared to $1.0 billion in the corresponding period last year. Of this increase, $95.3 million, or 30.2%, was provided by companies acquired in the past twelve months. Excluding revenue, net of other direct costs provided by acquired companies, PTS revenue, net of other direct costs increased $219.9 million, or 21.1%.

These increases were primarily attributable to the revenue growth factors mentioned above, partially offset by the decline in design/build services business in the United States.

Cost of Revenue, Net of Other Direct Costs

Cost of revenue, net of other direct costs for our PTS segment for the three months ended March 31, 2008 increased $70.1 million, or 24.2%, to $359.9 million as compared to $289.8 million in the corresponding period last year. Of this increase, $24.4 million, or 34.8%, was incurred by companies acquired in the past twelve months. Excluding cost of revenue, net of other direct costs associated with acquired companies, cost of revenue, net of other direct costs increased by $45.7 million, or 15.8%. For the three months ended March 31, 2008, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 50.7% as compared to 51.7% in the corresponding period last year.

Cost of revenue, net of other direct costs for our PTS segment for the six months ended March 31, 2008 increased $156.6 million, or 29.4%, to $689.2 million as compared to $532.6 million in the corresponding period last year. Of this increase, $42.0 million, or 26.8%, was incurred by companies acquired in the past twelve months. Excluding cost of revenue, net of other direct costs associated with acquired companies, cost of revenue, net of other direct costs increased by $114.6 million, or 21.5%. For the six months ended March 31, 2008, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 50.7% as compared to 51.0% in the corresponding period last year.

Gross Profit

Gross profit for our PTS segment for the three months ended March 31, 2008 increased $79.7 million, or 29.4%, to $350.7 million as compared to $271.0 million in the corresponding period last year. Of this increase, $30.1 million, or 37.7%, was provided by companies acquired in the past 12 months. Excluding gross profit provided by acquired companies, gross profit increased $49.6 million, or 18.3%. For the three months ended March 31, 2008, gross profit, as a percentage of revenue, net of other direct costs, was 49.3% as compared to 48.3% in the corresponding period last year.

Gross profit for our PTS segment for the six months ended March 31, 2008 increased $158.6 million, or 31.0%, to $669.9 million as compared to $511.3 million in the corresponding period last year. Of this increase, $53.3 million, or 33.6%, was provided by companies acquired in the past 12 months. Excluding gross profit provided by acquired companies, gross profit increased $105.3 million, or 20.6%. For the six months ended March 31, 2008, gross profit, as a percentage of revenue, net of other direct costs, was 49.3% as compared to 49.0% in the corresponding period last year.

These increases in gross profit for the three and six months ended March 31, 2008 were primarily attributable to the increases in revenue, net of other direct costs for the respective periods. The increases in gross profit, as a percentage of revenue, net of other direct costs, were primarily attributable to the increased demand for our environmental management and planning and urban design services which typically experience higher gross profit margins, partially offset by lower margins in our design/build services business in the United States resulting from a decline in revenue.

Equity in Earnings of Joint Ventures

Equity in earnings of joint ventures for our PTS segment for the three months ended March 31, 2008 increased $2.0 million to $2.7 million as compared to $0.7 million in the corresponding period last year.

Equity in earnings of joint ventures for our PTS segment for the six months ended March 31, 2008 increased $3.8 million to $3.7 million as compared to losses of $0.1 million in the corresponding period last year.

The increases for both periods were primarily attributable to increased joint venture activity in the Middle East and improved performance in a European joint venture that was in its initial phase in the prior year s corresponding period.

Management Support Services

	Three Months Ended				Six Months Ended			
	March 31, 2008	March 31, 2007	Change $	%	March 31, 2008	March 31, 2007	Change $	%
				(in thousands)				
Revenue	$ 209,054	$ 240,491	$ (31,437)	(13.1)%	$ 395,863	$ 425,171	$ (29,308)	(6.9)%
Other direct costs	168,933	211,868	(42,935)	(20.3)	328,681	376,461	(47,780)	(12.7)
Revenue, net of other direct costs	40,121	28,623	11,498	40.2	67,182	48,710	18,472	37.9
Cost of revenue, net of other direct costs	21,413	15,781	5,632	35.7	41,170	27,751	13,419	48.4
Gross profit	$ 18,708	$ 12,842	$ 5,866	45.7%	$ 26,012	$ 20,959	$ 5,053	24.1%

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Revenue, net of other direct costs	100.0%	100.0%	100.0%	100.0%
Cost of revenue, net of other direct costs	53.4	55.1	61.3	57.0
Gross profit	46.6%	44.9%	38.7%	43.0%

Revenue

Revenue for our MSS segment for the three months ended March 31, 2008, decreased $31.4 million, or 13.1%, to $209.1 million as compared to $240.5 million in the corresponding period last year.

Revenue for our MSS segment for the six months ended March 31, 2008, decreased $29.3 million, or 6.9%, to $395.9 million as compared to $425.2 million in the corresponding period last year.

The decreases for the three and six months ended March 31, 2008 were primarily attributable to a decrease in activity on our Global Maintenance and Supply Services task order in Iraq, which contained a proportionally higher component of subcontractor costs.

Revenue, Net of Other Direct Costs

Revenue, net of other direct costs for our MSS segment for the three months ended March 31, 2008 increased $11.5 million, or 40.2%, to $40.1 million as compared to $28.6 million in the corresponding period last year.

Revenue, net of other direct costs for our MSS segment for the six months ended March 31, 2008 increased $18.5 million, or 37.9%, to $67.2 million as compared to $48.7 million in the corresponding period last year.

The increase was primarily attributable to an increase in personnel and task orders received related to U.S. government activities in the Middle East.

Cost of Revenue, Net of Other Direct Costs

Cost of revenue, net of other direct costs for our MSS segment for the three months ended March 31, 2008, increased $5.6 million, or 35.7%, to $21.4 million as compared to $15.8 million in the corresponding period last year. For the three months ended March 31, 2008, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 53.4% as compared to 55.1% in the corresponding period last year.

Cost of revenue, net of other direct costs for our MSS segment for the six months ended March 31, 2008, increased $13.4 million, or 48.4%, to $41.2 million as compared to $27.8 million in the corresponding period last year. For the six months ended March 31, 2008, cost of revenue, net of other direct costs, as a percentage of revenue, net of other direct costs, was 61.3% as compared to 57.0% in the corresponding period last year.

Gross Profit

Gross profit for our MSS segment for the three months ended March 31, 2008, increased $5.9 million, or 45.7%, to $18.7 million as compared to $12.8 million in the corresponding period last year. For the three months ended March 31, 2008, gross profit, as a percentage of revenue, net of other direct costs, was 46.6% as compared to 44.9% in the corresponding period last year.

Gross profit for our MSS segment for the six months ended March 31, 2008, increased $5.1 million, or 24.1%, to $26.0 million as compared to $20.9 million in the corresponding period last year. For the six months ended March 31, 2008, gross profit, as a percentage of revenue, net of other direct costs, was 38.7% as compared to 43.0% in the corresponding period last year.

The increases in gross profit are primarily due to the increases in revenue, net of other direct costs, and the favorable resolution in March 2008 of a claim on a U.S. government project. The decrease in gross profit, as a percentage of revenue, net of other direct costs in the six month period ended March 31, 2008 was primarily due to increased personnel and services provided for a contract with the U.S government in the Middle East. This contract contributed to a greater increase in revenue, net of other direct costs as compared to gross profit.

Equity in Earnings of Joint Ventures

Equity in earnings of joint ventures for our MSS segment for the three months ended March 31, 2008 decreased $0.2 million, or 13.4%, to $1.3 million as compared to $1.5 million in the corresponding period last year.

Equity in earnings of joint ventures for our MSS segment for the six months ended March 31, 2008 decreased $0.6 million, or 16.0%, to $3.1 million as compared to $3.7 million in the corresponding period last year.

The decreases for both periods were primarily due to reduced activities in two joint ventures that provide training support services for international civilian police officers and peacekeepers, and operations and maintenance services at a military facility in the United States.

Seasonality

We experience seasonal trends in our business. Our revenue is typically lower in the first quarter of our fiscal year, primarily due to lower utilization rates attributable to holidays recognized around the world. Our revenue is typically higher in the last half of the 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 its fiscal year, September 30. Further, our construction management revenue typically increases during the high construction season of the summer months. Within the United States, as well as other parts of the world, our business generally benefits from milder weather conditions in our fiscal fourth quarter, which allows for more productivity from our on-site civil services. For these reasons, coupled with the number and significance of client contracts commenced and completed during a period, as well as the time of expenses incurred for corporate initiatives, it is not unusual for us to experience seasonal changes or fluctuations in our quarterly operating results.

Liquidity and Capital Resources

Cash Flows

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

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

At March 31, 2008, cash and cash equivalents were $217.7 million, an increase of $0.8 million, or 0.4%, from September 30, 2007, as a result of operating, investing and financing activities, including acquisitions, as described below.

Net cash provided by operating activities was $3.3 million for the six months ended March 31, 2008, a decrease of $50.4 million from net cash provided by operating activities of $53.7 million for the six months ended March 31, 2007. The decrease was primarily attributable to a reduced rate of collections of accounts receivable, as evidenced by increased days sales outstanding, which was partially offset by a reduced rate of payments of accounts payable.

Net cash used in investing activities was $8.5 million for the six months ended March 31, 2008, a decrease of $120.5 million from net cash used in investing activities of $129.0 million in the six months ended March 31, 2007. The decrease in net cash used was primarily due to the net proceeds we received from the sale of securities. Also, net cash used in business combinations was $102.8 million as compared to $125.8 million for the comparable period last year.

Net cash provided by financing activities was $5.7 million for the six months ended March 31, 2008, a decrease of $57.0 million from cash provided by financing activities of $62.7 million in the comparable period last year, primarily a result of reduced borrowings under credit agreements and proceeds from the issuance of stock, partially offset by reduced payments to repurchase stock.

Working Capital

Working capital, or current assets less current liabilities, decreased $51.1 million, or 8.6%, to $546.6 million at March 31, 2008 from $597.7 million at September 30, 2007, primarily as a result of increased net accounts receivable and a reclassification of income taxes payable to other long-term liabilities resulting from the adoption of FIN48, offset by cash used in business combinations and a change in classification of auction rate securities. Net accounts receivable, which includes billed and unbilled costs and fees, net of billings in excess of costs on uncompleted contracts, increased $203.3 million, or 22.6%, to $1.1 billion at March 31, 2008 from $899.3 million at September 30, 2007. This increase was due to business acquisitions, increased revenue, and the reduced rate of accounts receivable collections noted above.

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

Borrowings and Lines of Credit

At March 31, 2008 and September 30, 2007, our long-term debt consisted of the following:

	March 31, 2008		September 30, 2007	
	(in thousands of dollars)			
Senior Notes	$	8,333	$	8,333
Term credit agreement		34,639		37,015
Other debt		8,576		2,602
Total long-term debt		51,548		47,950
Less: Current portion of long-term debt		(18,642)		(8,764)
Long-term debt, less current portion	$	32,906	$	39,186

Amended and Restated Credit Agreement

We have an unsecured credit agreement with a syndicate of banks to support our working capital and acquisition needs. In August 2007, we amended and restated this agreement, primarily to increase the size of the facility. The amended and restated credit agreement (ARCA) increased the available borrowing capacity under our unsecured revolving credit facility to $600 million from $300 million, and extended the expiration date to August 31, 2012. We may also, at our option, increase the commitments under the facility up to a total of $750 million. The ARCA contains customary representations and warranties, affirmative and negative covenants and events of default, which include a sub-limit for financial and commercial standby letters of credit of $100 million. We may borrow, at our option, at either (a) a base rate (the greater of the federal funds rate plus 0.50% or the bank s reference rate), or (b) an offshore, or LIBOR, rate plus a margin which ranges from 0.50% to 1.375%. In addition to these borrowing rates, there is a commitment fee which ranges from 0.10% to 0.25% on any unused commitment. Borrowings under the ARCA are limited by certain financial covenants. At March 31, 2008 and September 30, 2007, there were no borrowings under the ARCA. At March 31, 2008 and September 30, 2007, outstanding standby letters of credit totaled $24.4 million and $24.3 million, respectively, under the ARCA. At March 31, 2008, we had $575.6 million available for borrowing under the ARCA.

Senior Notes

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

Term Credit Agreement

On September 22, 2006, through certain of our wholly-owned subsidiaries, we closed an unsecured term credit agreement with a syndicate of banks to facilitate dividend repatriations under section 965 of the American Jobs Creation Act, which provided for a limited time opportunity to repatriate foreign earnings to the U.S. at a 5.25% tax rate. The term credit agreement provides for a $65.0 million, five-year term loan among four subsidiary borrowers and one subsidiary guarantor. In order to obtain favorable pricing, we also provided a parent-company guarantee. The terms and conditions of the term credit agreement are similar to those contained in the ARCA. At March 31, 2008 and September 30, 2007, outstanding borrowings under this agreement were $34.6 and $37.0 million, respectively.

Other Debt

At March 31, 2008, we had 23 non-U.S., primarily unsecured credit facilities used to cover periodic overdrafts and to issue letters of credit in the aggregate amount of $139.8 million.

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

Commitments and Contingencies

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

As of March 31, 2008, there was approximately $83.5 million outstanding under standby letters of credit issued, primarily in connection with general and professional liability insurance programs and for contract performance guarantees. In addition, in some instances we guarantee that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards.

We adopted certain provisions of SFAS 158 as of September 30, 2007, and as such, were required to recognize on our balance sheet the funded status (measured as the difference between the fair value of plan assets and the projected benefit obligation) of our pension plans. We currently expect to contribute $15.2 million to our non-U.S. plans in 2008. We do not have a required minimum contribution for our domestic plans; however, we may make additional discretionary contributions. We currently expect to contribute $3.6 million to our U.S. plans in the year ending 2008. Our pension plans were underfunded by $80.0 million as of March 31, 2008. In the future, such pension under-funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors.

Recently Issued Accounting Pronouncements

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

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

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for us as of October 1, 2008. We are currently evaluating the impact of the provisions of SFAS 159 on

our financial statements.

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

Recent Developments

We announced in February 2008 that we had entered into an agreement to acquire substantially all of Earth Tech, Inc., an engineering services unit of Tyco International, Ltd. for approximately $510 million in cash. The transaction is described in more detail in a current report on Form 8-K we filed on February 12, 2008.

During the second quarter of fiscal 2008, we completed the acquisition of Tecsult Inc., a Montreal, Canada based engineering services firm.

During the second quarter of fiscal 2008, we also announced that we had entered into an agreement to acquire Boyle Engineering Corporation (Boyle), a Newport Beach, California based engineering services firm. Subsequent to the quarter ended March 31, 2008, we completed the acquisition of Boyle and Totten Sims Hubicki Associates, an Ontario, Canada based engineering services firm.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Financial Market Risks

We are exposed to market risk, primarily related to foreign currency exchange rates and interest rate exposure of our debt obligations that bear interest based on floating rates. We actively monitor these exposures. Our objective is to reduce, where we deem appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign exchange rates and interest rates. In the past, we have entered into derivative financial instruments such as forward contracts and interest rate hedge contracts. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage our exposures. We do not use derivative financial instruments for trading purposes. We currently have no material derivative instruments outstanding.

Foreign Currency Exchange Rate Risk

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

Interest Rate Risk

Our senior revolving credit facility and certain other debt obligations are subject to variable rate interest. The Company s operating results and financial condition could be adversely affected by an increase in these interest rates. As of March 31, 2008 and September 30, 2007, we had $34.6 and $37.0 million, respectively, outstanding in borrowings under our term credit agreement and no amounts outstanding under our credit facility. Interest on amounts borrowed under the credit facility is subject to adjustment based on certain levels of financial performance. For borrowings at offshore rates, the applicable margin added can range from 0.50% to 1.38%. For fiscal 2007, our weighted average borrowings on our senior credit facility were $75.6 million. If short-term floating interest rates were to increase or decrease by 1%, our annual interest expense could have increased or decreased by $0.8 million. We invest our cash in money market securities or other high quality, short-term securities that are subject to minimal credit and market risk.

Item 4T. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

Demand for our services is cyclical and vulnerable to sudden economic downturns and reductions in government and private industry spending. If the economy weakens, our revenue and profitability could be adversely affected.

Demand for our services is cyclical and vulnerable to sudden economic downturns and reductions in government spending, which may result in clients delaying, curtailing or canceling proposed and existing projects. Due to the recent economic downturn in the U.S. housing markets and severe tightening of the credit markets, many of our clients may face considerable budget shortfalls that may limit their overall demand for our services. For example, we expect that overall state government spending in 2008 will be lower than in 2007 due to, among other economic factors, decreased state tax revenues. In addition, our clients may find it more difficult to raise capital in the future to fund their projects due to uncertainty in the municipal and general credit markets. Also, the global demand for commodities has increased raw material costs, which will cause our clients projects to increase in overall cost and may result in the more rapid depletion of the funds that are available to our clients to spend on projects.

Because of an overall weakening economy, our clients may demand more favorable pricing terms while their ability to pay our invoices may be adversely affected. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects. Our business traditionally lags behind any overall recovery in the economy; therefore, our business may not recover at the same pace as the general economy s rate of improvement. If the economy weakens and/or government spending is reduced, our revenue and profitability could be adversely affected.

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

Our books and records are subject to audit by the various governmental agencies we serve and their representatives. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies. In addition, if one of our subsidiaries is charged with wrongdoing as a result of an audit, that subsidiary, and possibly our company as a whole, could be temporarily suspended or could be prohibited from bidding on and receiving future government contracts for a period of time. Furthermore, as a government contractor, we are subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not, the results of which could harm our business.

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

Fixed-price contracts require us to either perform all work under the contract for a specified lump-sum or to perform an estimated number of units of work at an agreed price per unit, with the total payment determined by the actual number of units performed. In fiscal 2007, approximately 37% of our revenue was recognized under fixed-price contracts. Fixed-price contracts are the predominant method of contracting outside of the United States and our exposure to fixed-price contracts will likely increase as we increase the non-U.S. portions of our business. Fixed-price contracts expose us to a number of risks not inherent in cost-plus and time and material contracts, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond our control, failures of subcontractors to perform and economic or other changes that may occur during the contract period. Losses under fixed- price contracts could be substantial and harm our results of operations.

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

Approximately 27% of our fiscal 2007 revenue was derived from our operations through joint ventures or similar partner arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners, and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially harm the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Approximately 12% of our fiscal 2007 revenue was derived from our unconsolidated joint ventures where we generally do not have control of the joint venture. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

We have defined benefit pension plans for employees in the United States, United Kingdom and Australia. At March 31, 2008, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of $80 million. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our profits could be materially and adversely affected.

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

During fiscal 2007, revenue attributable to our services provided outside of the United States was approximately 51% of our total revenue. There are risks inherent in doing business internationally, including:

- imposition of governmental controls and changes in laws, regulations or policies;
- political and economic instability;
- 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 the U.S. Foreign Corrupt Practice Act, 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.

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

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

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

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

- our ability to accurately assess the value, strengths, weaknesses, liabilities and potential profitability of acquisition candidates;

- the potential loss of key personnel of an acquired business;

- increased burdens on our staff and on our administrative, internal control and operating systems, which may hinder our legal and regulatory compliance activities;

- post-acquisition integration challenges; and

- post-acquisition deterioration in an acquired business that could result in goodwill impairment charges.

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

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

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

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

A number of government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue anticipated from 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 extent of competition varies with the types of services provided and the locations of the projects. Generally, we compete on the bases of technical and management capability, personnel qualifications and availability, geographic presence, experience and price. Increased competition may result in our inability to win bids for future projects and loss of revenue, profitability and market share.

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

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

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

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

At March 31, 2008, our contracted backlog was approximately $3.8 billion and our awarded backlog was approximately $3.3 billion for a total backlog of $7.1 billion. Our contracted backlog includes revenue we expect to record in the future from signed contracts, and in the case of a public 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 completed. We cannot guarantee that future revenue will be realized from either category of backlog or, if realized, will result in profits. Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time projects are delayed, scaled back or cancelled. These types of backlog reductions adversely affect the revenue and profits that we ultimately receive from contracts reflected in our backlog.

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

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

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

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

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. Our future revenue and growth prospects could be adversely affected if other contractors eliminate or reduce their subcontracts or joint venture relationships with us, or if a government agency terminates or reduces these other contractors programs, does not award them new contracts or refuses to pay under a contract.

Our quarterly operating results may fluctuate significantly.

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

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

- the size and scope of engagements;
- the timing and magnitude of expenses incurred for, or savings realized from, corporate initiatives;
- the impairment of goodwill or other intangible assets; and
- general economic and political conditions.

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

Continued failure of auctions of our auction rate securities could affect our liquidity.

As of March 31, 2008, we had approximately $81 million invested in auction rate securities, which are classified as other non-current assets on our condensed consolidated balance sheet. Our portfolio of auction rate securities are primarily AAA rated, long-term debt obligations secured by student loans, with such obligations being guaranteed by counterparties including the U.S. government. Liquidity for these securities has been provided by an auction process that resets the applicable interest rate at pre-determined intervals of 7 to 35 days. In the past, the auction process allowed investors to obtain liquidity, if needed, by selling the securities at face value. Recent uncertainties in the credit markets have adversely affected the auction market for these types of securities. We have recently experienced failed auctions for some of our auction rate securities that have gone to auction resulting in our inability to sell some of these securities. The auction rate securities continue to pay interest at default interest rates which are generally higher than current market rates and there has been no change in the ratings of these securities to date. We cannot predict whether future auctions related to our auction rate securities will be successful. If the markets for auction rate securities continue to experience disruptions and our future cash flows are not sufficient to meet our working capital needs, we may be forced to use our line of credit or other financing sources to finance future operations and acquisition activity.

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

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

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

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

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

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

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

We have incurred and will continue to incur increased costs as a result of being a publicly-traded company.

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

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

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

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

During the three month period ended March 31, 2008, we issued the following securities that were not registered under the Securities Act of 1933, as amended (the Securities Act):

i. 1.06 shares of our Class C preferred stock to U.S. Trust for the benefit of our employee stockholders under our Stock Purchase Plan;

ii. 5.91 of our Class E shares which provide certain voting rights for holders of the exchangeable shares referenced in paragraph (iii) below; and

iii. 645,372 shares of our common stock and shares exchangeable into our common stock on a 1-to-1 basis to the shareholders of privately-held companies in connection with our acquisition of the companies.

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

Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders (the Annual Meeting) was held on February 27, 2008. Of voteable common shares outstanding on December 31, 2007, a total of 84,961,609 were represented in person or by proxy at the Annual Meeting. Results of votes with respect to proposals submitted at the Annual Meeting are set forth below.

(a) To elect Class III Directors, each to serve for a three-year term and until his successor is duly elected and qualified. Votes recorded, by nominee, were as follows:

Nominee	For	Withheld
Francis S. Y. Bong	82,386,531	2,575,078
H. Frederick Christie	80,826,194	4,135,414
S. Malcolm Gillis	80,921,519	4,040,089

(b) To consider and vote upon the ratification and approval of the appointment of the firm of Ernst & Young LLP as the Company s auditors for fiscal year 2008:

For	Against	Abstain
82,404,352	225,070	2,332,186

Item 6. Exhibits

The following documents are filed as Exhibits to the Report:

Exhibit Numbers	Description
2.1*	Purchase Agreement, dated as of February 11, 2008, by and among AECOM Technology Corporation, Tyco International Finance S.A. and certain other seller parties thereto
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

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* Incorporated by reference to exhibit of like number to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 12, 2008.

SIGNATURES

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

AECOM TECHNOLOGY CORPORATION

Date: May 9, 2008	By:	/s/ MICHAEL S. BURKE Michael S. Burke *Executive Vice President, Chief Financial Officer and Chief Corporate Officer*