AECOM
Form 10-Q
February 06, 2019

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 December 31, 2018

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 0-52423

AECOM

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes o No 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

As of January 31, 2019, 156,094,835 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AECOM

Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2018	September 30, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 640,572	$ 642,168
Cash in consolidated joint ventures	197,730	244,565
Total cash and cash equivalents	838,302	886,733
Accounts receivable net	3,282,128	3,307,851
Contract assets	2,263,494	2,160,970
Prepaid expenses and other current assets	681,449	585,152
Current assets held for sale	58,700	59,800
Income taxes receivable	125,661	126,816
TOTAL CURRENT ASSETS	7,249,734	7,127,322
PROPERTY AND EQUIPMENT NET	601,005	614,062
DEFERRED TAX ASSETS NET	167,886	159,396
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	341,009	310,661
GOODWILL	5,893,534	5,921,116
INTANGIBLE ASSETS NET	296,711	319,892
OTHER NON-CURRENT ASSETS	217,771	228,682
TOTAL ASSETS	$ 14,767,650	$ 14,681,131
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$ 46,134	$ 8,353
Accounts payable	2,624,561	2,726,047
Accrued expenses and other current liabilities	2,180,806	2,267,046
Income taxes payable	48,129	39,802
Contract liabilities	1,008,202	931,431
Current liabilities held for sale	18,400	22,300
Current portion of long-term debt	114,665	134,698
TOTAL CURRENT LIABILITIES	6,040,897	6,129,677
OTHER LONG-TERM LIABILITIES	318,941	329,457
DEFERRED TAX LIABILITY NET	4,433	47,273
PENSION BENEFIT OBLIGATIONS	393,459	412,604
LONG-TERM DEBT	3,759,491	3,483,746
TOTAL LIABILITIES	10,517,221	10,402,757
COMMITMENTS AND CONTINGENCIES (Note 14)		
AECOM STOCKHOLDERS EQUITY:		

Common stock authorized, 300,000,000 shares of $0.01 par value as of December 31 and September 30, 2018; issued and outstanding 156,967,362 and 156,983,356 shares as of December 31 and September 30, 2018, respectively		1,570		1,570
Additional paid-in capital		3,845,145		3,846,392
Accumulated other comprehensive loss		(726,145)		(703,330)
Retained earnings		957,230		948,148
TOTAL AECOM STOCKHOLDERS EQUITY		4,077,800		4,092,780
Noncontrolling interests		172,629		185,594
TOTAL STOCKHOLDERS EQUITY		4,250,429		4,278,374
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	14,767,650	$	14,681,131

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statements of Operations

(unaudited - in thousands, except per share data)

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
Revenue	$ 5,037,495	$ 4,910,832
Cost of revenue	4,866,882	4,774,680
Gross profit	170,613	136,152
Equity in earnings of joint ventures	12,504	29,720
General and administrative expenses	(35,907)	(34,670)
Restructuring costs	(63,295)	
Income from operations	83,915	131,202
Other income	3,597	2,283
Interest expense	(56,026)	(56,165)
Income before income tax benefit	31,486	77,320
Income tax benefit	(33,600)	(47,093)
Net income	65,086	124,413
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(13,567)	(13,099)
Net income attributable to AECOM	$ 51,519	$ 111,314
Net income attributable to AECOM per share:		
Basic	$ 0.33	$ 0.70
Diluted	$ 0.32	$ 0.69
Weighted average shares outstanding:		
Basic	156,416	157,909
Diluted	159,603	161,847

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

(unaudited in thousands)

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
Net income	$ 65,086	$ 124,413
Other comprehensive income (loss), net of tax:		
Net unrealized (loss) gain on derivatives, net of tax	(6,298)	785
Foreign currency translation adjustments	(21,789)	(5,983)
Pension adjustments, net of tax	5,330	2,468
Other comprehensive loss, net of tax	(22,757)	(2,730)
Comprehensive income, net of tax	42,329	121,683
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax	(13,625)	(13,892)
Comprehensive income attributable to AECOM, net of tax	$ 28,704	$ 107,791

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Three Months Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 65,086	$ 124,413
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	63,160	62,835
Equity in earnings of unconsolidated joint ventures	(12,504)	(29,720)
Distribution of earnings from unconsolidated joint ventures	13,955	39,480
Non-cash stock compensation	15,631	16,540
Foreign currency translation	(12,058)	(16,018)
Other	2,425	(1,800)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable and contract assets	(86,271)	(186,098)
Prepaid expenses and other assets	(93,753)	(12,517)
Accounts payable	(101,459)	172,481
Accrued expenses and other current liabilities	(74,813)	(188,979)
Contract liabilities	76,471	93,102
Other long-term liabilities	(56,252)	(21,291)
Net cash (used in) provided by operating activities	(200,382)	52,428
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from purchase price adjustment on business acquisition		2,206
Cash acquired from consolidation of joint venture		7,630
Investment in unconsolidated joint ventures	(47,650)	(23,986)
Return of investment in unconsolidated joint ventures	9,273	5,030
Proceeds from sale of investments	3,805	161
Payments for purchase of investments	(3,223)	
Proceeds from disposal of property and equipment	1,674	10,967
Payments for capital expenditures	(23,576)	(29,510)
Net cash used in investing activities	(59,697)	(27,502)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	2,290,452	1,276,451
Repayments of borrowings under credit agreements	(1,999,140)	(1,236,242)
Proceeds from issuance of common stock	5,485	9,530
Proceeds from exercise of stock options		2,715
Payments to repurchase common stock	(52,347)	(26,701)
Net distributions to noncontrolling interests	(28,777)	(16,795)
Other financing activities	(2,439)	(25,962)
Net cash provided by (used in) financing activities	213,234	(17,004)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,586)	2,882
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(48,431)	10,804
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	886,733	802,362
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 838,302	$ 813,166

See accompanying Notes to Consolidated Financial Statements.

AECOM

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

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

The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended September 30, 2018 (the Annual Report). The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States (U.S.) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

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

The results of operations for the three months ended December 31, 2018 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2019.

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

2. New Accounting Pronouncements and Changes in Accounting

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance which amended the existing accounting standards for revenue recognition. The new accounting guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted the new standard on October 1, 2018, using the modified retrospective method, which resulted in an adjustment to retained earnings of $7.0 million, net of tax. Detailed disclosures regarding the adoption and other required disclosures can be found in Note 4.

In February 2016, the FASB issued new accounting guidance which changes accounting requirements for leases. The new guidance requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance will be effective for the Company s fiscal year beginning October 1, 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach and provides for some practical expedients. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In June 2016, the FASB issued a new credit loss standard that changes the impairment model for most financial assets and some other instruments. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The guidance will be effective for the Company s fiscal year starting October 1, 2020. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2016, the FASB issued new accounting guidance clarifying how entities should classify cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The Company adopted the new standard on October 1, 2018 and the adoption of the standard did not have a material impact on its statement of cash flows.

In October 2016, the FASB issued additional guidance regarding accounting for intra-entity transfers of assets other than inventory. The new guidance will require companies to account for the income tax consequences of intra-entity transfers of assets other than inventory in the period the transfer occurs. The Company adopted this guidance on October 1, 2018, and the adoption resulted in a $5.5 million reduction to other non-current assets and retained earnings.

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In January 2017, the FASB issued new accounting guidance that changes the definition of a business to assist companies with evaluating when a set of transferred assets and activities is a business. This guidance requires the buyer to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of assets. The Company elected to adopt this guidance on July 1, 2018 and the adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In January 2017, the FASB issued new accounting guidance to simplify the test for goodwill impairment. This guidance eliminates step two from the goodwill impairment test. Under the new guidance, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The Company early adopted the new guidance on January 1, 2018 and the adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In March 2017, the FASB issued new guidance on how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. Under the new guidance, employers will present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs. The new guidance was effective for the Company on October 1, 2018. Adoption of the new guidance did not have a material impact on the Company s consolidated financial statements.

In August 2017, the FASB issued new accounting guidance on derivatives and hedging. This guidance better aligns an entity s risk management activities and financial reporting for hedging relationships through change to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedging results. The Company early adopted the guidance on January 1, 2018 and the adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

3. Business Acquisitions, Goodwill and Intangible Assets

The Company completed one acquisition during the year ended September 30, 2018 for a total consideration of $5.6 million, which was accounted for under the acquisition method. Acquired tangible and intangible assets and liabilities were recognized on the acquisition date based upon their fair values. The determination of fair values of assets and liabilities acquired requires the Company to make estimates and use valuation techniques when market value is not readily available. Transaction costs associated with business acquisitions are expensed as they are incurred.

In the second quarter of fiscal 2018, management approved a plan to sell non-core oil and gas assets in North America, included in the Company s Construction Services segment (the Disposal Group). The Company classified the related assets and liabilities of the Disposal Group as held for sale in the consolidated balance sheet. In the third quarter of fiscal 2018, the Company sold a portion of the assets in the Disposal Group and recognized a $2.1 million loss on disposal. The remaining unsold portion of the Disposal Group remains classified as held for sale. The Company recorded losses related to the remeasurement of the Disposal Group based on estimated fair value less costs to sell resulting in total asset impairments of $168.2 million, recorded in Impairment of assets held for sale, including goodwill in the second quarter of fiscal 2018. Fair value was estimated using Level 3 inputs, such as forecasted cash flows, and Level 2 inputs, including bid prices from potential buyers. In connection with the classification of the Disposal Group as held for sale, the Company tested the amount of goodwill and other intangible assets allocated to the Disposal Group for impairment. The Company recorded an impairment of goodwill during the year ended September 30, 2018 of $125.4 million and an impairment of intangible and other noncurrent assets of $42.8 million. As of December 31, 2018, current assets held for sale were primarily comprised of accounts receivable of $44.8 million and property, plant and equipment of $13.6 million. As of December 31, 2018, current liabilities held for sale were primarily comprised of accounts payable of $18.4 million. The Company expects to complete the sale of the remaining Disposal Group assets within the next twelve months.

The changes in the carrying value of goodwill by reportable segment for the three months ended December 31, 2018 were as follows:

	September 30, 2018	Foreign Exchange Impact (in millions)	December 31, 2018
Design and Consulting Services	$ 3,189.2	$ (14.8)	$ 3,174.4
Construction Services	1,008.9	(6.6)	1,002.3
Management Services	1,723.0	(6.2)	1,716.8
Total	$ 5,921.1	$ (27.6)	$ 5,893.5

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The gross amounts and accumulated amortization of the Company s acquired identifiable intangible assets with finite useful lives as of December 31 and September 30, 2018, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	December 31, 2018			September 30, 2018			
	Gross Amount	Accumulated Amortization	Intangible Assets, Net	Gross Amount	Accumulated Amortization	Intangible Assets, Net	Amortization Period (years)
	(in millions)						
Backlog and customer relationships	$ 1,283.5	$ (987.4)	$ 296.1	$ 1,285.1	$ (966.0)	$ 319.1	1 11
Trademark / tradename	18.3	(17.7)	0.6	18.3	(17.5)	0.8	0.3 - 2
Total	$ 1,301.8	$ (1,005.1)	$ 296.7	$ 1,303.4	$ (983.5)	$ 319.9	

Amortization expense of acquired intangible assets included within cost of revenue was $21.6 million and $23.7 million for the three months ended December 31, 2018 and 2017, respectively. The following table presents estimated amortization expense of existing intangible assets for the remainder of fiscal 2019 and for the succeeding years:

Fiscal Year	(in millions)
2019 (nine months remaining)	$ 62.2
2020	69.3
2021	56.3
2022	43.7
2023	39.3
Thereafter	25.9
Total	$ 296.7

4. Revenue Recognition

On October 1, 2018, the Company adopted ASC 606 on a modified retrospective basis, which amended the accounting standards for revenue recognition. As a result, the new guidance was applied retrospectively to contracts which were not completed as of October 1, 2018. Contracts completed prior to October 1, 2018 were accounted for using the guidance in effect at that time. The cumulative effect of applying the new guidance was recorded as a reduction to retained earnings at October 1, 2018 of $7.0 million, net of tax. Consistent with the modified retrospective transition approach, the comparative period was not adjusted to conform with current period presentation. The adjustment was primarily related to segmenting or combining contracts by performance obligations identified under the criteria of the new standard. Revenue recognized during the three months ended December 31, 2018 increased $1.5 million, net of tax, due to the adoption of the new standard primarily in the Construction Services segment.

The new accounting guidance establishes principles for recognizing revenue upon the transfer of control of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company generally recognizes revenues over time as performance obligations are satisfied. The Company generally measures its progress to completion using an input measure of total costs incurred divided by total costs expected to be incurred. In the course of providing its services, the Company routinely subcontracts for services and incurs other direct costs on behalf of its clients. These costs are passed through to clients and, in accordance with GAAP, are included in the Company s revenue and cost of revenue.

Recognition of revenue and profit is dependent upon a number of factors, including the accuracy of a variety of estimates made at the balance sheet date, such as engineering progress, material quantities, the achievement of milestones, penalty provisions, labor productivity and cost estimates. Additionally, the Company is required to make estimates for the amount of consideration to be received, including bonuses, awards, incentive fees, claims, unpriced change orders, penalties, and liquidated damages. Variable consideration is included in the estimate of the transaction price only to the extent that a significant reversal would not be probable. Management continuously monitors factors that may affect the quality of its estimates, and material changes in estimates are disclosed accordingly.

The following summarizes the Company s major contract types:

Cost Reimbursable Contracts

Cost reimbursable contracts include cost-plus fixed fee, cost-plus fixed rate, and time-and-materials price contracts. Under cost-plus contracts, the Company charges clients for its costs, including both direct and indirect costs, plus a negotiated fee or rate. The Company recognizes revenue based on actual direct costs incurred and the applicable fixed rate or portion of the fixed fee earned as of the balance sheet date. Under time-and-materials price contracts, the Company negotiates hourly billing rates and charges its clients based on the actual time that it expends on a project. In addition, clients reimburse the Company for materials and other direct incidental expenditures incurred in connection with its performance under the contract. The Company may apply a practical expedient to recognize revenue in the amount in which it has the right to invoice if its right to consideration is equal to the value of performance completed to date.

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Guaranteed Maximum Price Contracts (GMP)

GMP contracts share many of the same contract provisions as cost-plus and fixed-price contracts. As with cost-plus contracts, clients are provided a disclosure of all the project costs, and a lump sum or percentage fee is separately identified. The Company provides clients with a guaranteed price for the overall project (adjusted for change orders issued by clients) and a schedule including the expected completion date. Cost overruns or costs associated with project delays in completion could generally be the Company s responsibility. For many of the Company s commercial or residential GMP contracts, the final price is generally not established until the Company has subcontracted a substantial percentage of the trade contracts with terms consistent with the master contract, and it has negotiated additional contractual limitations, such as waivers of consequential damages as well as aggregate caps on liabilities and liquidated damages. Revenue is recognized for GMP contracts as project costs are incurred relative to total estimated project costs.

Fixed-Price Contracts

Fixed price contracts include both lump-sum and fixed-unit price contracts. Under lump-sum contracts, the Company performs all the work under the contract for a specified fee. Lump-sum contracts are typically subject to price adjustments if the scope of the project changes or unforeseen conditions arise. Under fixed-unit price contracts, the Company performs a number of units of work at an agreed price per unit with the total payment under the contract determined by the actual number of units delivered. Revenue is recognized for fixed-price contracts using the input method measured on a cost-to-cost basis.

The following tables present the Company s revenues disaggregated by revenue sources:

	Three months ended			
	December 31, 2018		December 31, 2017	
	(in millions)			
Cost reimbursable	$	2,571.6	$	2,357.2
Guaranteed maximum price		1,024.0		1,178.6
Fixed price		1,441.9		1,375.0
Total revenue	$	5,037.5	$	4,910.8

	Three months ended			
	December 31, 2018		December 31, 2017	
	(in millions)			
Americas	$	4,070.4	$	3,928.6
Europe, Middle East, Africa		550.1		589.3
Asia Pacific		417.0		392.9
Total revenue	$	5,037.5	$	4,910.8

Revenues in Europe, Middle East, Africa and Asia Pacific are primarily reported in the Company s DCS segment. As of December 31, 2018, the Company had allocated $20.1 billion of transaction price to unsatisfied or partially satisfied performance obligations, of which approximately 60% is expected to be satisfied within the next twelve months.

The Company s timing of revenue recognition may not be consistent with its rights to bill and collect cash from its clients. Those rights are generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of work or when services are performed. The Company s accounts receivable represent amounts billed to clients that have yet to be collected and represent an unconditional right to cash from its clients. Contract assets represent the amount of contract revenue recognized but not yet billed pursuant to contract terms or accounts billed after the balance sheet date. Contract liabilities represent billings as of the balance sheet date, as allowed under the terms of a contract, but not yet recognized as contract revenue pursuant to the Company s revenue recognition policy.

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Net accounts receivable consisted of the following:

	December 31, 2018		September 30, 2018
		(in millions)	
Billed	$ 2,680.0		$ 2,697.7
Contract retentions	654.1		661.7
Total accounts receivable gross	3,334.1		3,359.4
Allowance for doubtful accounts	(52.0)		(51.6)
Total accounts receivable net	$ 3,282.1		$ 3,307.8

Substantially all contract assets as of December 31, 2018 and September 30, 2018 are expected to be billed and collected within twelve months, except for claims. Significant claims recorded in contract assets and other non-current assets were $266.0 million and $266.0 million as of December 31 and September 30, 2018, respectively, and included an amount related to the DOE Deactivation, Demolition, and Removal Project discussed further in Note 14. Contract retentions represent amounts invoiced to clients where payments have been withheld from progress payments until the contracted work has been completed and approved by the client. These retention agreements vary from project to project and could be outstanding for several months or years.

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

Other than the U.S. government, no single client accounted for more than 10% of the Company s outstanding receivables at December 31, 2018 and September 30, 2018.

The Company sold trade receivables to financial institutions, of which $374.6 million and $334.2 million were outstanding as of December 31, 2018 and September 30, 2018, respectively. The Company does not retain financial or legal obligations for these receivables that would result in material losses. The Company s ongoing involvement is limited to the remittance of customer payments to the financial institutions with respect to the sold trade receivables.

5. Joint Ventures and Variable Interest Entities

The Company s joint ventures provide architecture, engineering, program management, construction management, operations and maintenance services, and invest in real estate and public-private partnership (P3) projects. Joint ventures, the combination of two or more partners, are generally formed for a specific project. Management of the joint venture is typically controlled by a joint venture executive committee, comprised of representatives from the joint venture partners. The joint venture executive committee normally provides management oversight and controls decisions which could have a significant impact on the joint venture.

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

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

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

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

- a VIE that does not require consolidation and is treated as an equity method investment because the Company is not the primary beneficiary or the joint venture is not a VIE and the Company does not hold the majority voting interest.

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

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

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

	December 31, 2018 (unaudited)	September 30, 2018
	(in millions)	
Current assets	$ 906.8	$ 1,013.7
Non-current assets	183.4	192.7
Total assets	$ 1,090.2	$ 1,206.4
Current liabilities	$ 645.9	$ 724.2
Non-current liabilities	14.5	12.7
Total liabilities	660.4	736.9
Total AECOM equity	257.9	284.2
Noncontrolling interests	171.9	185.3
Total owners equity	429.8	469.5
Total liabilities and owners equity	$ 1,090.2	$ 1,206.4

Total revenue of the consolidated joint ventures was $617.5 million and $623.0 million for the three months ended December 31, 2018 and 2017, respectively. The assets of the Company s consolidated joint ventures are restricted for use only by the particular joint venture and are not available for the general operations of the Company.

Summary of unaudited financial information of the unconsolidated joint ventures, as derived from their unaudited financial statements, is as follows:

	December 31, 2018	September 30, 2018
	(in millions)	
Current assets	$ 1,778.8	$ 1,903.3
Non-current assets	994.8	938.3
Total assets	$ 2,773.6	$ 2,841.6

Current liabilities	$	1,592.7	$	1,658.5
Non-current liabilities		182.1		224.3
Total liabilities		1,774.8		1,882.8
Joint ventures equity		998.8		958.8
Total liabilities and joint ventures equity	$	2,773.6	$	2,841.6
AECOM s investment in joint ventures	$	341.0	$	310.7

	Three Months Ended			
	December 31, 2018		December 31, 2017	
	(in millions)			
Revenue	$	1,162.2	$	1,478.6
Cost of revenue		1,127.8		1,395.2
Gross profit	$	34.4	$	83.4
Net income	$	32.4	$	82.1

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

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
	(in millions)	
Pass through joint ventures	$ 9.1	$ 13.2
Other joint ventures	3.4	16.5
Total	$ 12.5	$ 29.7

6. Pension Benefit Obligations

In the U.S., the Company sponsors various qualified defined benefit pension plans. Benefits under these plans generally are based on the employee s years of creditable service and compensation; however, all U.S. defined benefit plans are closed to new participants and have frozen accruals.

The Company also sponsors various non-qualified plans in the U.S.; all of these plans are frozen. Outside the U.S., the Company sponsors various pension plans, which are appropriate to the country in which the Company operates, some of which are government mandated.

The components of net periodic benefit cost other than the service cost component are included in other income (expense) in the consolidated statement of operations. The following table details the components of net periodic benefit cost for the Company s pension plans for the three months ended December 31, 2018 and 2017:

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	U.S.	Int l	U.S.	Int l
	(in millions)			
Components of net periodic benefit cost:				
Service costs	$	$ 0.1	$ 1.2	$ 0.3
Interest cost on projected benefit obligation	5.9	7.4	5.2	7.9
Expected return on plan assets	(6.8)	(9.5)	(7.9)	(10.7)
Amortization of net loss	0.9	1.0	1.0	2.0
Settlement loss recognized		0.1		0.1
Net periodic benefit cost	$	$ (0.9)	$ (0.5)	$ (0.4)

The total amounts of employer contributions paid for the three months ended December 31, 2018 were $2.5 million for U.S. plans and $7.9 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2019 are $11.8 million for U.S. plans and $19.3 million for non-U.S. plans.

In the first quarter of fiscal 2019, the United Kingdom High Court ruled that the formulas used to determine guaranteed minimum pension benefits violated gender pay equality laws. As a result, the Company may be required to retroactively increase benefit levels for plan participants, which would be initially recognized in other comprehensive income as an increase to prior service cost. The Company is in the process of seeking actuarial and legal advice to understand the impact of this ruling.

7. Debt

Debt consisted of the following:

	December 31, 2018	September 30, 2018
	(in millions)	
2014 Credit Agreement	$ 1,699.8	$ 1,433.8
2014 Senior Notes	800.0	800.0
2017 Senior Notes	1,000.0	1,000.0
URS Senior Notes	247.9	247.9
Other debt	216.8	191.8
Total debt	3,964.5	3,673.5
Less: Current portion of debt and short-term borrowings	(160.8)	(143.1)
Less: Unamortized debt issuance costs	(44.2)	(46.7)
Long-term debt	$ 3,759.5	$ 3,483.7

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The following table presents, in millions, scheduled maturities of the Company s debt as of December 31, 2018:

Fiscal Year		
2019 (nine months remaining)	$	132.1
2020		101.6
2021		341.3
2022		305.0
2023		748.3
Thereafter		2,336.2
Total	$	3,964.5

2014 Credit Agreement

The Company entered into a credit agreement (Credit Agreement) on October 17, 2014, which, as amended to date, consists of (i) a term loan A facility that includes a $510 million (US) term loan A facility with a term expiring on March 13, 2021 and a $500 million Canadian dollar (CAD) term loan A facility and a $250 million Australian dollar (AUD) term loan A facility, each with terms expiring on March 13, 2023; (ii) a $600 million term loan B facility with a term expiring on March 13, 2025; and (iii) a revolving credit facility in an aggregate principal amount of $1.35 billion with a term expiring on March 13, 2023. Some subsidiaries of the Company (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of conditions specified in the Credit Agreement and Security Agreement.

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

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

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

On September 29, 2016, the Credit Agreement and the Security Agreement were amended to (1) lower the applicable interest rate margins for the term loan A and the revolving credit facilities, and lower the applicable letter of credit fees and commitment fees to the revised consolidated leverage levels; (2) extend the term of the term loan A and the revolving credit facility to September 29, 2021; (3) add a new delayed draw term loan A facility tranche in the amount of $185.0 million; (4) replace the then existing $500 million performance letter of credit facility with a $500 million basket to enter into secured letters of credit outside the Credit Agreement; and (5) revise covenants, including the Maximum Consolidated Leverage Ratio, so that the step down from a 5.00 to a 4.75 leverage ratio is effective as of March 31, 2017 as well as the investment basket for the Company s AECOM Capital business.

On March 31, 2017, the Credit Agreement was amended to (1) expand the ability of restricted subsidiaries to borrow under Incremental Term Loans; (2) revise the definition of Working Capital as used in Excess Cash Flow; (3) revise the definitions for Consolidated EBITDA and Consolidated Funded Indebtedness to reflect the expected gain and debt repayment of an AECOM Capital disposition, which disposition was completed on April 28, 2017; and (4) amend provisions relating to the Company s ability to undertake internal restructuring steps to accommodate changes in tax laws.

On March 13, 2018, the Credit Agreement was amended to (1) refinance the existing term loan A facility to include a $510 million (US) term loan A facility with a term expiring on March 13, 2021 and a $500 million CAD term loan A facility and a $250 million AUD term loan A facility each with terms expiring on March 13, 2023; (2) issue a new $600 million term loan B facility to institutional investors with a term expiring on March 13, 2025; (3) increase the capacity of the Company s revolving credit facility from $1.05 billion to $1.35 billion and extend its term until March 13, 2023; (4) reduce the Company s interest rate borrowing costs as follows: (a) the term loan B facility, at the Company s election, Base Rate (as defined in the Credit Agreement) plus 0.75% or Eurocurrency Rate (as defined in the Credit Agreement) plus 1.75%, (b) the (US) term loan A facility, at the Company s election, Base Rate plus 0.50% or Eurocurrency Rate plus 1.50%, and (c) the Canadian (CAD) term loan A facility, the Australian (AUD) term loan A facility, and the revolving credit facility, an initial rate of, at the Company s election, Base Rate plus 0.75% or Eurocurrency Rate plus 1.75%, and after the end of the Company s fiscal quarter ended June 30, 2018, Base Rate loans plus a margin ranging from 0.25% to 1.00% or Eurocurrency Rate plus a margin from 1.25% to 2.00%, based on the Consolidated Leverage Ratio (as defined in the Credit Agreement); (5) revise covenants including increasing the amounts available under the restricted payment negative covenant and revising the Maximum Consolidated Leverage Ratio (as defined in the Credit Agreement) to include a 4.5 leverage ratio through September 30, 2019 after which the leverage ratio steps down to 4.0.

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On November 13, 2018, the Credit Agreement was amended to revise the definition of Consolidated EBITDA to increase corporate restructuring allowances and provide for additional flexibility under the covenants for non-core asset dispositions, among other changes.

Under the Credit Agreement, the Company is subject to a maximum consolidated leverage ratio and minimum consolidated interest coverage ratio at the end of each fiscal quarter. The Company s Consolidated Leverage Ratio was 4.2 at December 31, 2018. The Company s Consolidated Interest Coverage Ratio was 4.5 at December 31, 2018. As of December 31, 2018, the Company was in compliance with the covenants of the Credit Agreement.

At December 31, 2018 and September 30, 2018, outstanding standby letters of credit totaled $27.2 million and $28.7 million, respectively, under the Company s revolving credit facilities. As of December 31, 2018 and September 30, 2018, the Company had $1,014.8 million and $1,321.3 million, respectively, available under its revolving credit facility.

2014 Senior Notes

On October 6, 2014, the Company completed a private placement offering of $800,000,000 aggregate principal amount of the unsecured 5.750% Senior Notes due 2022 (2022 Notes) and $800,000,000 aggregate principal amount of the unsecured 5.875% Senior Notes due 2024 (the 2024 Notes and, together with the 2022 Notes, the 2014 Senior Notes). On November 2, 2015, the Company completed an exchange offer to exchange the unregistered 2014 Senior Notes for registered notes, as well as all related guarantees. On March 16, 2018, the Company redeemed all of the 2022 Notes at a redemption price that was 104.313% of the principal amount outstanding plus accrued and unpaid interest. The March 16, 2018 redemption resulted in a $34.5 million prepayment premium, which was included in interest expense.

As of December 31, 2018, the estimated fair value of the 2024 Notes was approximately $788.0 million. The fair value of the 2024 Notes as of December 31, 2018 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the 2024 Notes.

At any time prior to July 15, 2024, the Company may redeem on one or more occasions all or part of the 2024 Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of the redemption, plus any accrued and unpaid interest to the date of redemption. In addition, on or after July 15, 2024, the 2024 Notes may be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

The indenture pursuant to which the 2024 Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide notices thereunder and provisions related to bankruptcy events. The indenture also contains customary negative covenants.

The Company was in compliance with the covenants relating to the 2024 Notes as of December 31, 2018.

2017 Senior Notes

On February 21, 2017, the Company completed a private placement offering of $1,000,000,000 aggregate principal amount of its unsecured 5.125% Senior Notes due 2027 (the 2017 Senior Notes) and used the proceeds to immediately retire the remaining $127.6 million outstanding on the then existing term loan B facility as well as repay $600 million of the term loan A facility and $250 million of the revolving credit facility under its Credit Agreement. On June 30, 2017, the Company completed an exchange offer to exchange the unregistered 2017 Senior Notes for registered notes, as well as related guarantees.

As of December 31, 2018, the estimated fair value of the 2017 Senior Notes was approximately $852.5 million. The fair value of the 2017 Senior Notes as of December 31, 2018 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the 2017 Senior Notes. Interest will be payable on the 2017 Senior Notes at a rate of 5.125% per annum. Interest on the 2017 Senior Notes will be payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2017. The 2017 Senior Notes will mature on March 15, 2027.

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At any time and from time to time prior to December 15, 2026, the Company may redeem all or part of the 2017 Senior Notes, at a redemption price equal to 100% of their principal amount, plus a make whole premium as of the redemption date, and accrued and unpaid interest to the redemption date.

In addition, at any time and from time to time prior to March 15, 2020, the Company may redeem up to 35% of the original aggregate principal amount of the 2017 Senior Notes with the proceeds of one or more qualified equity offerings, at a redemption price equal to 105.125%, plus accrued and unpaid interest. Furthermore, at any time on or after December 15, 2026, the Company may redeem on one or more occasions all or part of the 2017 Senior Notes at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest.

The indenture pursuant to which the 2017 Senior Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide notices thereunder and provisions related to bankruptcy events. The indenture also contains customary negative covenants.

The Company was in compliance with the covenants relating to the 2017 Senior Notes as of December 31, 2018.

URS Senior Notes

In connection with the acquisition of the URS on October 17, 2014, the Company assumed the URS 3.85% Senior Notes due 2017 (2017 URS Senior Notes) and the URS 5.00% Senior Notes due 2022 (2022 URS Senior Notes), totaling $1.0 billion (URS Senior Notes). The URS acquisition triggered change in control provisions in the URS Senior Notes that allowed the holders of the URS Senior Notes to redeem their URS Senior Notes at a cash price equal to 101% of the principal amount and, accordingly, the Company redeemed $572.3 million of the URS Senior Notes on October 24, 2014. The remaining 2017 URS Senior Notes matured and were fully redeemed on April 3, 2017 for $179.2 million using proceeds from a $185 million delayed draw term loan A facility tranche under the Credit Agreement. The 2022 URS Senior Notes are general unsecured senior obligations of AECOM Global II, LLC as successor in interest to URS and are fully and unconditionally guaranteed on a joint-and-several basis by some former URS domestic subsidiary guarantors.

As of December 31, 2018, the estimated fair value of the 2022 URS Senior Notes was approximately $243.6 million. The carrying value of the 2022 URS Senior Notes on the Company s Consolidated Balance Sheets as of December 31, 2018 was $247.9 million. The fair value of the 2022 URS Senior Notes as of December 31, 2018 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the 2022 URS Senior Notes.

As of December 31, 2018, the Company was in compliance with the covenants relating to the 2022 URS Senior Notes.

Other Debt and Other Items

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. The Company s unsecured credit facilities are primarily used for standby letters of credit issued in connection with general and professional liability insurance programs and for contract performance guarantees. At December 31, 2018 and September 30, 2018, these outstanding standby letters of credit totaled $509.8 million and $486.4 million, respectively. As of December 31, 2018, the Company had $474.0 million available under these unsecured credit facilities.

Effective Interest Rate

The Company s average effective interest rate on its total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2018 and 2017 was 4.7% and 4.8%, respectively.

Interest expense in the consolidated statements of operations for the three months ended December 31, 2018 and 2017 included amortization of deferred debt issuance costs of $2.4 million and $2.9 million, respectively.

8. Derivative Financial Instruments and Fair Value Measurements

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

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

Cash Flow Hedges

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

The notional principal in U.S. dollar (USD), Canadian dollar (CAD), and Australian dollar (AUD), fixed rates and related expiration dates of the Company s outstanding interest rate swap agreements were as follows:

	December 31, 2018		
Notional Amount Currency	**Notional Amount (in millions)**	**Fixed Rate**	**Expiration Date**
AUD	200.0	2.19%	February 2021
CAD	400.0	2.49%	September 2022
USD	200.0	2.60%	February 2023

	September 30, 2018		
Notional Amount Currency	**Notional Amount (in millions)**	**Fixed Rate**	**Expiration Date**
AUD	200.0	2.19%	February 2021
CAD	400.0	2.49%	September 2022
USD	200.0	2.60%	February 2023

The notional principal of outstanding foreign currency contracts to purchase AUD was AUD 52.8 million (or $39.8 million) and AUD 65.2 million (or $49.1 million) at December 31, 2018 and September 30, 2018, respectively.

Other Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts which are not designated as accounting hedges to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. Gains and losses on these contracts were not material for the three months ended December 31, 2018 and 2017.

Fair Value Measurements

The Company s non-pension financial assets and liabilities recorded at fair value relate to derivative instruments and were not material at December 31, 2018 or September 30, 2018.

See Note 13 for accumulated balances and reporting period activities of derivatives related to reclassifications out of accumulated other comprehensive loss for the three months ended December 31, 2018 and 2017. Amounts recognized in accumulated other comprehensive loss from the Company s foreign currency contracts were immaterial for all periods presented. Amounts reclassified from accumulated other comprehensive loss into income from the foreign currency options were immaterial for all periods presented. Additionally, there were no material losses recognized in income due to amounts excluded from effectiveness testing from the Company s interest rate swap agreements.

During the year ended September 30, 2015, the Company entered into a contingent consideration arrangement in connection with a business acquisition. Under the arrangement, the Company agreed to pay cash to the sellers if financial performance thresholds are achieved in the future. The fair value of the contingent consideration liability, net of amounts paid, as of December 31, 2018 and September 30, 2018 was $11 million and $11 million, respectively. This liability is a Level 3 fair value measurement recorded within other accrued liabilities, and was valued based on estimated future net cash flows. Any future changes in the fair value of this contingent consideration liability will be recognized in earnings during the applicable period.

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9. Share-based Payments

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

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

	2018		2017	
	Shares of stock under options (in millions)	**Weighted average exercise price**	**Shares of stock under options (in millions)**	**Weighted average exercise price**
Outstanding at September 30	0.6	$ 31.62	0.7	$ 31.11
Options granted				
Options exercised			(0.1)	27.67
Options forfeited or expired				
Outstanding at December 31	0.6	31.62	0.6	31.54
Vested and expected to vest in the future as of December 31	0.6	$ 31.62	0.6	$ 31.54

The Company grants stock units to employees under its Performance Earnings Program (PEP), whereby units are earned and issued dependent upon meeting established cumulative performance objectives and vest over a three-year service period. Additionally, the Company issues restricted stock units to employees which are earned based on service conditions. The grant date fair value of PEP awards and restricted stock unit awards is that day s closing market price of the Company s common stock. The weighted average grant date fair value of PEP awards was $27.50 and $37.90 during the three months ended December 31, 2018 and 2017, respectively. The weighted average grant date fair value of restricted stock unit awards was $27.50 and $36.93 during the three months ended December 31, 2018 and 2017, respectively. Total compensation expense related to these share-based payments including stock options was $15.6 million and $16.5 million during the three months ended December 31, 2018 and 2017, respectively. Unrecognized compensation expense related to total share-based payments outstanding as of December 31, 2018 and September 30, 2018 was $123.0 million and $94.3 million, respectively, to be recognized on a straight-line basis over the awards respective vesting periods which are generally three years.

10. Income Taxes

The Company s effective tax rate was (106.7)% and (60.9)% for the three months ended December 31, 2018 and 2017, respectively. The most significant item contributing to the difference between the statutory U.S. federal income tax rate of 21.0% and the Company s effective tax rate for the three month period ended December 31, 2018 was a $38.1 million benefit related to the release of a valuation allowance on foreign tax credits. This item is not expected to have a continuing impact on the effective tax rate for the remainder of the fiscal year. The most significant items contributing to the difference between the statutory U.S. federal income tax rate of 24.5% and the Company s effective tax rate for the three month period ended December 31, 2017 were a $41.7 million net benefit related to one-time U.S. federal tax law changes and a benefit of $11.2 million related to changes in uncertain tax positions primarily in the U.S. and Canada.

During the first quarter of fiscal 2019, a valuation allowance in the amount of $38.1 million related to foreign tax credits was released due to sufficient positive evidence obtained during the quarter. The positive evidence included the issuance of regulations during the quarter related to *The Tax Cuts and Jobs Act* (Tax Act) and forecasting the utilization of the foreign tax credits within the foreseeable future. The Company evaluated the new positive evidence against any negative evidence to determine the valuation allowance was no longer needed.

During the first quarter of fiscal 2018, President Trump signed the Tax Act into law. The Tax Act reduced the Company s U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on accumulated earnings of foreign subsidiaries, created new taxes on certain foreign sourced earnings, and eliminated or reduced certain deductions.

Other significant provisions included a base erosion anti-abuse tax (BEAT) on excessive amounts paid to foreign related parties and a minimum tax on global intangible low-taxed income (GILTI). The Company has made an accounting policy election to recognize the current tax impact of GILTI as a period cost and has included the impact in the estimated annual effective tax rate as of December 31, 2018.

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Given the significance of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allowed registrants to record provisional amounts during a one year measurement period similar to that used when accounting for business combinations. As of December 31, 2018, the Company has completed its accounting for the tax effects of enactment of the Tax Act.

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

The Company is currently under tax audit in several jurisdictions and believes the outcomes which are reasonably possible within the next twelve months, including lapses in statutes of limitations, could result in adjustments, but will not result in a material change in the liability for uncertain tax positions.

Generally, the Company does not provide for U.S. taxes or foreign withholding taxes on gross book-tax differences in its non-U.S. subsidiaries because such basis differences of approximately $1.8 billion are able to and intended to be reinvested indefinitely. At December 31, 2018, the Company has determined it will continue to indefinitely reinvest the earnings of certain foreign subsidiaries and therefore will continue to account for these undistributed earnings based on existing accounting under ASC 740 and not accrue additional tax outside of the one-time transition tax described above. There may also be additional U.S. or foreign income tax liability upon repatriation, although the calculation of such additional taxes is not practicable.

11. Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income attributable to AECOM by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income attributable to AECOM by the weighted average number of common shares outstanding and potential common shares for the period. The Company includes as potential common shares the weighted average dilutive effects of equity awards using the treasury stock method. For the three months ended December 31, 2018 and 2017, equity awards excluded from the calculation of potential common shares were not significant.

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

	Three Months Ended	
	December 31, 2018	**December 31, 2017**
	(in millions)	
Denominator for basic earnings per share	156.4	157.9
Potential common shares	3.2	3.9
Denominator for diluted earnings per share	159.6	161.8

12. Other Financial Information

Accrued expenses and other current liabilities consist of the following:

	December 31, 2018	September 30, 2018
	(in millions)	
Accrued salaries and benefits	$ 923.0	$ 1,035.9
Accrued contract costs	881.8	861.0
Other accrued expenses	376.0	370.1
	$ 2,180.8	$ 2,267.0

Accrued contract costs above include balances related to professional liability accruals of $528.0 million and $519.5 million as of December 31, 2018 and September 30, 2018, respectively. The remaining accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees. Liabilities recorded related to accrued contract losses were not material as of December 31, 2018 and September 30, 2018. The Company did not have material revisions to estimates for contracts where revenue is recognized using the percentage-of-completion method during the three months ended December 31, 2018 and 2017. In the first quarter of fiscal 2019, the Company commenced a restructuring plan to improve profitability. The Company expects to incur restructuring costs of $80 to $90 million in fiscal 2019 primarily related to personnel and real estate costs. During the first quarter of fiscal 2019, the Company incurred restructuring expenses of $63.3 million, including personnel and other costs of $46.0 million and real estate costs of $17.3 million, of which $41.2 million was accrued and unpaid at December 31, 2018. The Company incurred $22.4 million of severance expenses relating to restructuring activities during the three months ended December 31, 2017.

During the twelve months ended September 30, 2016, the Company recorded revenue related to the expected accelerated recovery of a pension related entitlement from the federal government of approximately $50 million, which is included in accounts receivable-net at December 31, 2018. The entitlement resulted from pension costs that are reimbursable through government contracts in accordance with Cost Accounting Standards. The accelerated recognition resulted from an amendment to freeze pension benefits under URS Federal Services, Inc. Employees Retirement Plan. The actual amount of reimbursement may vary from the Company s expectation.

13. Reclassifications out of Accumulated Other Comprehensive Loss

The accumulated balances and reporting period activities for the three months ended December 31, 2018 and 2017 related to reclassifications out of accumulated other comprehensive loss are summarized as follows (in millions):

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Gain/(Loss) on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2018	$ (202.3)	$ (502.2)	$ 1.2	$ (703.3)
Other comprehensive income (loss) before reclassification	3.8	(21.8)	(6.8)	(24.8)
Amounts reclassified from accumulated other comprehensive (loss) income	1.5		0.5	2.0
Balances at December 31, 2018	$ (197.0)	$ (524.0)	$ (5.1)	$ (726.1)

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Gain/(Loss) on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2017	$ (281.9)	$ (418.4)	$ (0.4)	$ (700.7)
Other comprehensive (loss) income before reclassification		(6.8)	0.5	(6.3)
Amounts reclassified from accumulated other comprehensive loss	2.5		0.3	2.8
Balances at December 31, 2017	$ (279.4)	$ (425.2)	$ 0.4	$ (704.2)

14. Commitments and Contingencies

The Company records amounts representing its probable estimated liabilities relating to claims, guarantees, litigation, audits and investigations. The Company relies in part on qualified actuaries to assist it in determining the level of reserves to establish for insurance-related claims that are known and have been asserted against it, and for insurance-related claims that are believed to have been incurred based on actuarial analysis, but have not yet been reported to the Company s claims administrators as of the respective balance sheet dates. The Company includes any adjustments to such insurance reserves in its consolidated results of operations. The Company s reasonably possible loss disclosures are presented on a gross basis prior to the consideration of insurance recoveries. The Company does not record gain contingencies until they are realized. In the ordinary course of business, the Company may not be aware that it or its affiliates are under investigation and may not be aware of whether or not a known investigation has been concluded.

In the ordinary course of business, the Company may enter into various arrangements providing financial or performance assurance to clients, lenders, or partners. Such arrangements include standby letters of credit, surety bonds, and corporate guarantees to support the creditworthiness or the project execution commitments of its affiliates, partnerships and joint ventures. Performance arrangements typically have various expiration dates ranging from the completion of the project contract and extending beyond contract completion in some circumstances such as for warranties. The Company may also guarantee that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may incur additional costs, pay liquidated damages or be held responsible for the costs incurred by the client to achieve the required performance standards. The potential payment amount of an outstanding performance arrangement is typically the remaining cost of work to be performed by or on behalf of third parties. Generally, under joint venture arrangements, if a partner is financially unable to complete its share of the contract, the other partner(s) may be required to complete those activities.

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At December 31, 2018, the Company was contingently liable in the amount of approximately $537.0 million in issued standby letters of credit and $5.6 billion in issued surety bonds primarily to support project execution.

In the ordinary course of business, the Company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities.

In addition, in connection with the investment activities of AECOM Capital, the Company provides guarantees of contractual obligations, including guarantees for completion of projects, repayment of debt, environmental indemnity obligations and other lender required guarantees.

The Company s investment adviser jointly manages, sponsors and owns equity interest in the AECOM-Canyon Equity Fund, L.P. (the Fund), in which the Company has an ongoing capital commitment to fund investments. At December 31, 2018, the Company has capital commitments of $35 million to the Fund over the next 10 years.

DOE Deactivation, Demolition, and Removal Project

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

Due to unanticipated requirements and permitting delays by federal and state agencies, as well as delays and related ground stabilization activities caused by Hurricane Irene in 2011, WGI Ohio has been required to perform work outside the scope of the Task Order Modification. In December 2014, WGI Ohio submitted claims against the DOE pursuant to the Contracts Disputes Acts seeking recovery of $103 million, including additional fees on changed work scope. WGI Ohio has incurred and continues to incur additional project costs outside the scope of the contract as a result of differing site and ground conditions and intends to submit additional formal claims against the DOE.

Due to significant delays and uncertainties about responsibilities for the scope of remaining work, final project completion costs and other associated costs have exceeded $100 million over the contracted and claimed amounts. WGI Ohio assets and liabilities, including the value of the above costs and claims, were measured at their fair value on October 17, 2014, the date AECOM acquired WGI Ohio s parent company, which measurement has been reevaluated to account for developments pertaining to this matter. Deconstruction and decommissioning activities are completed and site restoration activities are underway. WGI Ohio increased its receivable during the quarter ended June 30, 2018.

WGI Ohio can provide no certainty that it will recover the claims submitted against DOE in December 2014, any future claims or any other project costs after December 2014 that WGI Ohio may be obligated to incur including the remaining project completion costs, which could have a material adverse effect on the Company s results of operations.

SR-91

One of the Company s wholly-owned subsidiaries, URS Corporation, entered into a partial fixed cost and partial time and material design agreement in 2012 with a design build contractor for a state route highway construction project in Riverside County and Orange County, California. On April 1, 2017, URS Corporation filed an $8.2 million amended complaint in the Superior Court of California against the design build contractor for its failure to pay for services performed under the design agreement. On July 3, 2017, the design build contractor filed an amended cross-complaint against URS Corporation and AECOM in Superior Court alleging breaches of contract, negligent interference and professional negligence pertaining to URS Corporation s performance of design services under the design agreement, seeking purported damages of $70 million. On May 4, 2018, the design build contractor dismissed its claims for negligent interference. On May 24, 2018, URS Corporation filed an $11.9 million second amended complaint in Superior Court against the design build contractor for its failure to pay for services performed under the design agreement. URS Corporation and AECOM cannot provide assurances that URS Corporation will be successful in the recovery of the amounts owed to it under the design agreement or in their defense against the amounts alleged under the cross-complaint that they believe are without merit and that they intend to vigorously defend against. The potential range of loss in excess of any current accrual cannot be reasonably estimated at this time primarily because the matter involves complex factual and legal issues; there is substantial uncertainty regarding any alleged damages, including due to liability of and payments, by third parties; and the matter is at a discovery stage of litigation.

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New York Department of Environmental Conservation

The following separate matters pertain to government environmental allegations against an AECOM affiliate.

- In September 2017, AECOM USA, Inc., one of the Company s wholly-owned subsidiaries, was advised by the New York State Department of Environmental Conservation (DEC) of allegations that it committed environmental permit violations pursuant to the New York Environmental Conservation Law (ECL) associated with AECOM USA, Inc. s oversight of a stream restoration project for Schoharie County which could result in substantial penalties if calculated under the ECL s maximum civil penalty provisions. AECOM USA, Inc. disputes this claim and intends to continue to defend this matter vigorously; however, AECOM USA, Inc. cannot provide assurances that it will be successful in these efforts. The potential range of loss in excess of any current accrual cannot be reasonably estimated at this time primarily because the matter involves complex and unique environmental and regulatory issues; the project site involves the oversight and involvement of various local, state and federal government agencies; there is substantial uncertainty regarding any alleged damages; and the matter is in its preliminary stage of the government s claims and any negotiations of a consent order or other resolution.

- In December 2018, AECOM USA, Inc. was advised by DEC of allegations that, during AECOM USA, Inc. s oversight of a remedial construction project in Poughkeepsie, New York, sheen escaped a containment boom line near the east bank of the Hudson River without proper notification to DEC and an unapproved dispersant was sprayed onto the Hudson River to control odors in violation of ECL. AECOM USA, Inc. denies these allegations but is working cooperatively with DEC to resolve the matter.

Illinois Power Generating Company

Advatech, LLC, a joint venture 60% owned by AECOM Energy & Construction, Inc., executed a fixed-cost engineering, procurement and construction contract for a flue-gas-desulfurization system at a coal-fired power plant owned by Illinois Power Generating Company, a wholly-owned subsidiary of Dynegy, Inc. (Genco). On September 2, 2016, Genco terminated Advatech s contract for convenience and Advatech subsequently submitted its final contractual invoice of approximately $81 million. Advatech filed and perfected a mechanics lien on the Genco power plant property on October 17, 2016. On December 9, 2016, Genco filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas and its plan of reorganization was approved by the Bankruptcy Court on January 25, 2017 (the Bankruptcy Plan). Advatech s contractual invoice and mechanics lien were not extinguished per the terms of the Bankruptcy Plan and remain outstanding claims. On March 15, 2017, Advatech filed a demand for arbitration and on July 21, 2017 submitted a Statement of Claim seeking reimbursement of approximately $81 million for Genco s breach of contract and failure to reimburse Advatech for all of the cost of work performed under the contract. Arbitration proceedings occurred in October 2018.

Advatech intends to vigorously prosecute this matter and seeks to collect all claimed amounts under the terms of the contract; however, Advatech cannot provide assurance that it will be successful in these efforts. The resolution of this matter and any potential range of loss in excess of any current accrual cannot be reasonably determined or estimated at this time primarily because the matter has not been fully arbitrated and presents unique regulatory, bankruptcy and contractual interpretation issues.

15. Reportable Segments

The Company s operations are organized into four reportable segments: Design and Consulting Services (DCS), Construction Services (CS), Management Services (MS), and AECOM Capital (ACAP). The Company s DCS reportable segment delivers planning, consulting, architectural, environmental, and engineering design services to commercial and government clients worldwide. The Company s CS reportable segment provides construction services primarily in the Americas. The Company s MS reportable segment provides program and facilities management and maintenance, training, logistics, consulting, technical assistance, and systems integration and information technology services, primarily for agencies of the U.S. government. The Company s ACAP segment invests in real estate and public-private partnership (P3) projects. These reportable segments are organized by the types of services provided, the differing specialized needs of the respective clients, and how the Company manages its business. The Company has aggregated various operating segments into its reportable segments based on their similar characteristics, including similar long term financial performance, the nature of services provided, internal processes for delivering those services, and types of customers.

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

Reportable Segments:	Design and Consulting Services	Construction Services	Management Services (in millions)	AECOM Capital	Corporate	Total
Three Months Ended December 31, 2018:						
Revenue	$ 2,029.7	$ 2,014.5	$ 989.4	$ 3.9	$	$ 5,037.5
Gross profit	115.7	3.2	47.8	3.9		170.6
Equity in earnings (losses) of joint ventures	3.8	7.9	3.3	(2.5)		12.5
General and administrative expenses				(1.7)	(34.2)	(35.9)
Restructuring costs					(63.3)	(63.3)
Operating income (loss)	119.5	11.1	51.1	(0.3)	(97.5)	83.9
Gross profit as a % of revenue	5.7%	0.2%	4.8%			3.4%
Three Months Ended December 31, 2017:						
Revenue	$ 1,941.9	$ 2,125.5	$ 843.4	$	$	$ 4,910.8
Gross profit	77.8	27.1	31.3			136.2
Equity in earnings of joint ventures	7.5	13.4	8.8			29.7
General and administrative expenses				(2.6)	(32.1)	(34.7)
Operating income (loss)	85.3	40.5	40.1	(2.6)	(32.1)	131.2
Gross profit as a % of revenue	4.0%	1.3%	3.7%			2.8%
Reportable Segments:						
Total assets						
December 31, 2018	$ 7,100.0	$ 4,168.1	$ 2,677.7	$ 165.9	$ 656.0	$ 14,767.7
September 30, 2018	7,013.8	4,212.0	2,701.2	140.6	613.5	14,681.1

16. Condensed Consolidating Financial Information

In connection with the registration of the Company s 2014 Senior Notes that were declared effective by the SEC on September 29, 2015, AECOM became subject to the requirements of Rule 3-10 of Regulation S-X regarding financial statements of guarantors and issuers of guaranteed securities. Both the 2014 Senior Notes and the 2017 Senior Notes are fully and unconditionally guaranteed on a joint and several basis by some of AECOM s directly and indirectly 100% owned subsidiaries (the Subsidiary Guarantors). Other than customary restrictions imposed by applicable statutes, there are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to AECOM in the form of cash dividends, loans or advances.

The following condensed consolidating financial information, which is presented for AECOM, the Subsidiary Guarantors on a combined basis and AECOM s non-guarantor subsidiaries on a combined basis, is provided to satisfy the disclosure requirements of Rule 3-10 of Regulation S-X.

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Condensed Consolidating Balance Sheets

(unaudited in millions)

December 31, 2018

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	$ 1.7	$ 315.0	$ 521.6	$	838.3
Accounts receivable and contract assets net		2,580.0	2,965.6		5,545.6
Intercompany receivable	954.6	119.5	153.2	(1,227.3)	
Prepaid expenses and other current assets	91.1	327.6	262.7		681.4
Current assets held for sale			58.7		58.7
Income taxes receivable	83.4		42.3		125.7
TOTAL CURRENT ASSETS	1,130.8	3,342.1	4,004.1	(1,227.3)	7,249.7
PROPERTY AND EQUIPMENT NET	206.0	208.3	186.7		601.0
DEFERRED TAX ASSETS NET	172.1	16.3	147.1	(167.6)	167.9
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	6,658.6	1,993.7		(8,652.3)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	6.6	49.3	285.1		341.0
GOODWILL		3,392.7	2,500.8		5,893.5
INTANGIBLE ASSETS NET		207.0	89.7		296.7
OTHER NON-CURRENT ASSETS	38.5	45.3	134.1		217.9
TOTAL ASSETS	$ 8,212.6	$ 9,254.7	$ 7,347.6	$ (10,047.2)	14,767.7
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term debt	$ 16.1	$	$ 30.0	$	46.1
Accounts payable	65.9	1,564.4	994.3		2,624.6
Accrued expenses and other current liabilities	64.1	981.6	1,135.1		2,180.8
Income taxes payable	19.7		28.4		48.1
Intercompany payable	107.6	832.3	435.9	(1,375.8)	
Contract liabilities		333.9	674.3		1,008.2
Current liabilities held for sale			18.4		18.4
Current portion of long-term debt	43.6	27.3	43.8		114.7
TOTAL CURRENT LIABILITIES	317.0	3,739.5	3,360.2	(1,375.8)	6,040.9
OTHER LONG-TERM LIABILITIES	118.1	247.9	346.5		712.5
DEFERRED TAX LIABILITY NET		63.0	108.9	(167.5)	4.4
NOTE PAYABLE INTERCOMPANY NON CURRENT	806.4		492.8	(1,299.2)	
LONG-TERM DEBT	2,934.0	293.8	531.7		3,759.5
TOTAL LIABILITIES	4,175.5	4,344.2	4,840.1	(2,842.5)	10,517.3
TOTAL AECOM STOCKHOLDERS EQUITY	4,037.1	4,910.5	2,334.9	(7,204.7)	4,077.8
Noncontrolling interests			172.6		172.6
TOTAL STOCKHOLDERS EQUITY	4,037.1	4,910.5	2,507.5	(7,204.7)	4,250.4
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 8,212.6	$ 9,254.7	$ 7,347.6	$ (10,047.2)	$ 14,767.7

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Condensed Consolidating Balance Sheets

(in millions)

September 30, 2018

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	$ 22.0	$ 270.9	$ 593.8	$	$ 886.7
Accounts receivable and contract assets net		2,544.7	2,924.1		5,468.8
Intercompany receivable	951.1	84.9	157.9	(1,193.9)	
Prepaid expenses and other current assets	52.9	331.6	200.7		585.2
Current assets held for sale			59.8		59.8
Income taxes receivable	84.6		42.2		126.8
TOTAL CURRENT ASSETS	1,110.6	3,232.1	3,978.5	(1,193.9)	7,127.3
PROPERTY AND EQUIPMENT NET	202.6	217.3	194.2		614.1
DEFERRED TAX ASSETS NET	134.0		150.0	(124.6)	159.4
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	6,364.1	1,912.0		(8,276.1)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	13.4	49.6	247.7		310.7
GOODWILL		3,392.7	2,528.4		5,921.1
INTANGIBLE ASSETS NET		218.6	101.3		319.9
OTHER NON-CURRENT ASSETS	49.9	45.6	133.1		228.6
TOTAL ASSETS	$ 7,874.6	$ 9,067.9	$ 7,333.2	$ (9,594.6)	$ 14,681.1
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term debt	$ 8.4	$	$	$	$ 8.4
Accounts payable	53.6	1,616.7	1,055.7		2,726.0
Accrued expenses and other current liabilities	58.8	1,035.6	1,172.7		2,267.1
Income taxes payable	10.4		29.4		39.8
Intercompany payable	105.5	830.8	416.9	(1,353.2)	
Contract liabilities	1.5	316.1	613.8		931.4
Current liabilities held for sale			22.3		22.3
Current portion of long-term debt	43.3	27.0	64.4		134.7
TOTAL CURRENT LIABILITIES	281.5	3,826.2	3,375.2	(1,353.2)	6,129.7
OTHER LONG-TERM LIABILITIES	131.6	249.0	361.5		742.1
DEFERRED TAX LIABILITY NET		63.1	108.9	(124.7)	47.3
NOTE PAYABLE INTERCOMPANY NON CURRENT	800.9		487.5	(1,288.4)	
LONG-TERM DEBT	2,627.8	291.4	564.5		3,483.7
TOTAL LIABILITIES	3,841.8	4,429.7	4,897.6	(2,766.3)	10,402.8
TOTAL AECOM STOCKHOLDERS EQUITY	4,032.8	4,638.2	2,250.1	(6,828.3)	4,092.8
Noncontrolling interests			185.5		185.5
TOTAL STOCKHOLDERS EQUITY	4,032.8	4,638.2	2,435.6	(6,828.3)	4,278.3
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 7,874.6	$ 9,067.9	$ 7,333.2	$ (9,594.6)	$ 14,681.1

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Condensed Consolidating Statements of Operations

(unaudited - in millions)

	For the three months ended December 31, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	$	$ 2,703.6	$ 2,354.8	$ (20.9)	$ 5,037.5
Cost of revenue		2,601.4	2,286.4	(20.9)	4,866.9
Gross profit		102.2	68.4		170.6
Equity in earnings from subsidiaries	153.5	(52.4)		(101.1)	
Equity in earnings of joint ventures		9.9	2.6		12.5
General and administrative expenses	(34.2)		(1.7)		(35.9)
Restructuring costs	(63.3)				(63.3)
Income from operations	56.0	59.7	69.3	(101.1)	83.9
Other income	1.2	11.9	3.8	(13.3)	3.6
Interest expense	(49.5)	(5.0)	(14.8)	13.3	(56.0)
Income before income tax (benefit) expense	7.7	66.6	58.3	(101.1)	31.5
Income tax (benefit) expense	(43.7)	5.8	4.3		(33.6)
Net income	51.4	60.8	54.0	(101.1)	65.1
Noncontrolling interests in income of consolidated subsidiaries, net of tax			(13.6)		(13.6)
Net income attributable to AECOM	$ 51.4	$ 60.8	$ 40.4	$ (101.1)	$ 51.5

	For the three months ended December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	$	$ 2,721.3	$ 2,201.5	$ (12.0)	$ 4,910.8
Cost of revenue		2,607.8	2,178.8	(12.0)	4,774.6
Gross profit		113.5	22.7		136.2
Equity in earnings from subsidiaries	206.1	183.2		(389.3)	
Equity in earnings of joint ventures		17.2	12.5		29.7
General and administrative expenses	(32.1)		(2.6)		(34.7)
Income from operations	174.0	313.9	32.6	(389.3)	131.2
Other income	0.2	5.4	2.7	(6.0)	2.3
Interest expense	(52.3)	(4.6)	(5.3)	6.0	(56.2)
Income before income tax expense (benefit)	121.9	314.7	30.0	(389.3)	77.3
Income tax expense (benefit)	10.6	112.5	(170.2)		(47.1)
Net income	111.3	202.2	200.2	(389.3)	124.4
Noncontrolling interest in income of consolidated subsidiaries, net of tax			(13.1)		(13.1)
Net income attributable to AECOM	$ 111.3	$ 202.2	$ 187.1	$ (389.3)	$ 111.3

Consolidating Statements of Comprehensive Income

(unaudited - in millions)

	For the three months ended December 31, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$ 51.4	$ 60.8	$ 54.0	$ (101.1)	$ 65.1
Other comprehensive loss, net of tax:					
Net unrealized loss on derivatives, net of tax	(2.4)		(3.9)		(6.3)
Foreign currency translation adjustments			(21.8)		(21.8)
Pension adjustments, net of tax	0.7		4.6		5.3
Other comprehensive loss, net of tax	(1.7)		(21.1)		(22.8)
Comprehensive income, net of tax	49.7	60.8	32.9	(101.1)	42.3
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax			(13.6)		(13.6)
Comprehensive income attributable to AECOM, net of tax	$ 49.7	$ 60.8	$ 19.3	$ (101.1)	$ 28.7

	For the three months ended December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$ 111.3	$ 202.2	$ 200.2	$ (389.3)	$ 124.4
Other comprehensive income (loss), net of tax:					
Net unrealized gain on derivatives, net of tax	0.7		0.1		0.8
Foreign currency translation adjustments			(6.0)		(6.0)
Pension adjustments, net of tax	0.8		1.7		2.5
Other comprehensive income (loss), net of tax	1.5		(4.2)		(2.7)
Comprehensive income, net of tax	112.8	202.2	196.0	(389.3)	121.7
Noncontrolling interests in comprehensive income of consolidated subsidiaries, net of tax			(13.9)		(13.9)
Comprehensive income attributable to AECOM, net of tax	$ 112.8	$ 202.2	$ 182.1	$ (389.3)	$ 107.8

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Condensed Consolidating Statements of Cash Flows

(unaudited - in millions)

	For the three months ended December 31, 2018				
	Parent	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Total**
CASH FLOWS FROM OPERATING ACTIVITIES	$ (57.3)	$ (22.2)	$ (120.9)	$	$ (200.4)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net investment in unconsolidated joint ventures	(0.9)	(6.8)	(30.7)		(38.4)
Net proceeds from sale of investments			0.6		0.6
Payments for capital expenditures, net of disposals	(9.8)	(5.7)	(6.4)		(21.9)
Net receipts from (investment in) intercompany notes	19.3	61.9	(8.4)	(72.8)	
Other intercompany investing activities	(227.2)	(287.2)		514.4	
Net cash used in investing activities	(218.6)	(237.8)	(44.9)	441.6	(59.7)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings under credit agreements	2,254.8		35.6		2,290.4
Repayments of borrowings under credit agreements	(1,959.7)	(4.7)	(34.7)		(1,999.1)
Proceeds from issuance of common stock	5.4				5.4
Payments to repurchase common stock	(52.3)				(52.3)
Net distributions to noncontrolling interests			(28.8)		(28.8)
Other financing activities	1.4	(9.1)	5.3		(2.4)
Net (repayments) borrowings on intercompany notes	6.0	7.9	(86.7)	72.8	
Other intercompany financing activities		310.0	204.4	(514.4)	
Net cash provided by financing activities	255.6	304.1	95.1	(441.6)	213.2
EFFECT OF EXCHANGE RATE CHANGES ON CASH			(1.5)		(1.5)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20.3)	44.1	(72.2)		(48.4)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22.0	270.9	593.8		886.7
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1.7	$ 315.0	$ 521.6	$	$ 838.3

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Condensed Consolidating Statements of Cash Flows

(unaudited - in millions)

	For the three months ended December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES	$ (62.8)	$ 28.1	$ 87.1	$	$ 52.4
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from purchase price adjustment to business acquisition			2.2		2.2
Cash acquired from consolidation of joint venture			7.6		7.6
Net investment in unconsolidated joint ventures		(3.6)	(15.4)		(19.0)
Proceeds from sale of investments			0.2		0.2
Payments for capital expenditures, net of disposals	3.4	(17.5)	(4.4)		(18.5)
Net receipts from (investment in) intercompany notes	0.6	(5.1)	28.8	(24.3)	
Other intercompany investing activities	(5.8)	67.2		(61.4)	
Net cash (used in) provided by investing activities	(1.8)	41.0	19.0	(85.7)	(27.5)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings under credit agreements	1,240.8		35.7		1,276.5
Repayments of borrowings under credit agreements	(1,187.4)	(4.7)	(44.1)		(1,236.2)
Proceeds from issuance of common stock	9.5				9.5
Proceeds from exercise of stock options	2.7				2.7
Payments to repurchase common stock	(26.7)				(26.7)
Net distributions to noncontrolling interests			(16.8)		(16.8)
Other financing activities	0.9	(36.8)	9.9		(26.0)
Net (repayments) borrowings on intercompany notes	(3.7)	(25.1)	4.5	24.3	
Other intercompany financing activities		(34.7)	(26.7)	61.4	
Net cash provided by (used in) financing activities	36.1	(101.3)	(37.5)	85.7	(17.0)
EFFECT OF EXCHANGE RATE CHANGES ON CASH			2.9		2.9
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28.5)	(32.2)	71.5		10.8
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32.6	254.9	514.9		802.4
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4.1	$ 222.7	$ 586.4	$	$ 813.2

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

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 that are not limited to historical facts, but reflect the Company s current beliefs, expectations or intentions regarding future events. These statements include forward-looking statements with respect to the Company, including the Company s business and operations, and the engineering and construction industry. Statements that are not historical facts, without limitation, including statements that use terms such as anticipates, believes, expects, estimates, intends, may, plans, potential, projects, and will and that relate to our future revenues business trends; future non-core oil and gas asset sales and restructuring costs; future accounting estimates; future contractual performance obligations; future conversions of backlog; future capital allocation priorities including common stock repurchases, future trade receivables, future debt pay downs; future post-retirement expenses; future tax benefits and expenses; future compliance with regulations; future legal claims and insurance coverage; future effectiveness of our disclosure and internal controls over financial reporting; and other future economic and industry conditions, are forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this Quarterly Report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including, but not limited to, our business is cyclical and vulnerable to economic downturns and client spending reductions; government shutdowns; long-term government contracts and subject to uncertainties related to government contract appropriations; governmental agencies may modify, curtail or terminate our contracts; government contracts are subject to audits and adjustments of contractual terms; losses under fixed-price contracts; limited control over operations run through our joint venture entities; liability for misconduct by our employees or consultants; failure to comply with laws or regulations applicable to our business; maintaining adequate surety and financial capacity; high leveraged and potential inability to service our debt and guarantees; exposure to Brexit; exposure to political and economic risks in different countries; currency exchange rate fluctuations; retaining and recruiting key technical and management personnel; legal claims; inadequate insurance coverage; environmental law compliance and adequate nuclear indemnification; unexpected adjustments and cancellations related to our backlog; partners and third parties who may fail to satisfy their legal obligations; managing pension costs; AECOM Capital s real estate development; cybersecurity issues and IT outages; as well as other additional risks and factors discussed in this Quarterly Report on Form 10-Q and any subsequent reports we file with the SEC. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement.

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

Overview

We are a leading fully integrated firm positioned to design, build, finance and operate infrastructure assets for governments, businesses and organizations throughout the world. We provide planning, consulting, architectural and engineering design services to commercial and government clients worldwide in major end markets such as transportation, facilities, environmental, energy, water and government markets. We also provide construction services, including building construction and energy, infrastructure and industrial construction. In addition, we provide program and facilities management and maintenance, training, logistics, consulting, technical assistance, and systems integration and information technology services, primarily for agencies of the U.S. government and also for national governments around the world.

Our business focuses primarily on providing fee-based planning, consulting, architectural and engineering design services and, therefore, our business is labor intensive. We primarily derive income from our ability to generate revenue and collect cash from our clients through the billing of our employees time spent on client projects and our ability to manage our costs. AECOM Capital primarily derives its income from real estate development sales.

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

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

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

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

Our ACAP segment invests in real estate and public-private partnership (P3) projects. ACAP typically partners with investors and experienced developers as co-general partners. In addition, ACAP may, but is not required to, enter into contracts with our other AECOM affiliates to provide design, engineering, construction management, development and operations and maintenance services for ACAP funded projects.

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

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

In December 2015, the federal legislation referred to as the Fixing America s Surface Transportation Act (FAST Act) was authorized. The FAST Act is a five-year federal program expected to provide infrastructure spending on roads, bridges, and public transit and rail systems. While client spending patterns are likely to remain uneven, we expect that the passage of the FAST Act will continue to positively impact our transportation services business.

The U.S. federal government has proposed significant legislative and executive infrastructure initiatives that, if enacted, could have a positive impact to our infrastructure business.

As part of our capital allocation commitments, we repurchased common stock under our $1 billion authorization and we intend to deploy future free cash flow towards ongoing debt reduction and stock repurchases.

In March 2018, President Trump signed proclamations to impose tariffs on steel and aluminum imports per the U.S. Trade Expansion Act of 1962, increasing the price for steel and aluminum in the United States, which could impact client spending and affect the profitability of our fixed-price construction projects.

We expect to sell remaining non-core oil and gas assets in North America from our Construction Services business segment within the next twelve months.

We expect to exit the fixed-price combined cycle gas power plant construction and non-core Oil & Gas markets. We no longer expect to pursue at-risk construction opportunities internationally and will continue to review our remaining at-risk construction exposure. We expect to incur approximately $80 to $90 million in restructuring costs in fiscal 2019, and we expect to evaluate our geographic exposure as part of a proposed plan to exit more than 30 countries, subject to applicable laws, to improve profitability and reduce our risk profile.

We expect to benefit from the return on AECOM Capital asset sales in fiscal 2019.

We cannot determine if future climate change and greenhouse gas laws and policies, such as the United Nation s COP-21 Paris Agreement, will have a material impact on our business or our clients business; however, we expect future environmental laws and policies could negatively impact demand for our services related to fossil fuel projects and positively impact demand for our services related to environmental, infrastructure, nuclear and alternative energy projects.

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Results of Operations

Three months ended December 31, 2018 compared to the three months ended December 31, 2017

Consolidated Results

	Three Months Ended			
	December 31, 2018	December 31, 2017	Change $	%
		(in millions)		
Revenue	$ 5,037.5	$ 4,910.8	$ 126.7	2.6%
Cost of revenue	4,866.9	4,774.6	92.3	1.9
Gross profit	170.6	136.2	34.4	25.3
Equity in earnings of joint ventures	12.5	29.7	(17.2)	(57.9)
General and administrative expenses	(35.9)	(34.7)	(1.2)	3.5
Restructuring costs	(63.3)		(63.3)	0.0
Income from operations	83.9	131.2	(47.3)	(36.1)
Other income	3.6	2.3	1.3	56.5
Interest expense	(56.0)	(56.2)	0.2	(0.4)
Income before income tax benefit	31.5	77.3	(45.8)	(59.2)
Income tax benefit	(33.6)	(47.1)	13.5	(28.7)
Net income	65.1	124.4	(59.3)	(47.7)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(13.6)	(13.1)	(0.5)	3.8
Net income attributable to AECOM	$ 51.5	$ 111.3	$ (59.8)	(53.7)%

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

	Three Months Ended	
	December 31, 2018	December 31, 2017
Revenue	100.0%	100.0%
Cost of revenue	96.6	97.2
Gross margin	3.4	2.8
Equity in earnings of joint ventures	0.2	0.6
General and administrative expenses	(0.6)	(0.7)
Restructuring costs	(1.3)	0.0
Income from operations	1.7	2.7
Other income	0.1	0.0
Interest expense	(1.2)	(1.1)
Income before income tax benefit	0.6	1.6
Income tax benefit	(0.7)	(0.9)
Net income	1.3	2.5
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(0.3)	(0.2)
Net income attributable to AECOM	1.0%	2.3%

Revenue

Our revenue for the three months ended December 31, 2018 increased $126.7 million, or 2.6%, to $5,037.5 million as compared to $4,910.8 million for the corresponding period last year.

The increase in revenue for the three months ended December 31, 2018 was primarily attributable to an increase in our DCS segment of $87.8 million, a decrease in our CS segment of $111.0 million, an increase in our MS segment of $146.0 million, and an increase in our ACAP segment of $3.9 million, as discussed further below.

In the course of providing our services, we routinely subcontract for services and incur other direct costs on behalf of our clients. These costs are passed through to clients and, in accordance with industry practice and GAAP, are included in our revenue and cost of revenue. Because subcontractor and other direct costs can change significantly from project to project and period to period, changes in revenue may not be indicative of business trends. Subcontractor and other direct costs for the quarters ended December 31, 2018 and 2017 were $2.7 billion and $2.6 billion, respectively. Subcontractor costs and other direct costs as a percentage of revenue, were 53% during the three months ended December 31, 2018 and December 31, 2017.

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Gross Profit

Our gross profit for the three months ended December 31, 2018 increased $34.4 million, or 25.3%, to $170.6 million as compared to $136.2 million for the corresponding period last year. For the three months ended December 31, 2018, gross profit, as a percentage of revenue, increased to 3.4% from 2.8% in the three months ended December 31, 2017.

Gross profit changes were due to the reasons noted in DCS, CS and MS reportable segments below.

Equity in Earnings of Joint Ventures

Our equity in earnings of joint ventures for the three months ended December 31, 2018 was $12.5 million as compared to $29.7 million in the corresponding period last year.

The decrease in equity in earnings of joint ventures for the three months ended December 31, 2018 was due primarily to a gain from the acquisition of a previously unconsolidated joint venture in our CS segment recorded in the prior period and did not repeat in the current period, and a decrease in volume in storm recovery activity in a joint venture in our DCS segment.

General and Administrative Expenses

Our general and administrative expenses for the three months ended December 31, 2018 increased $1.2 million, or 3.5%, to $35.9 million as compared to $34.7 million for the corresponding period last year. As a percentage of revenue, general and administrative expenses was 0.6% and 0.7% for the three months ended December 31, 2018 and 2017, respectively.

Restructuring Costs

In the first quarter of fiscal 2019, we commenced a restructuring plan to improve profitability. We expect to incur restructuring costs of $80 to $90 million in fiscal 2019 primarily related to personnel and real estate costs. During the first quarter of fiscal 2019, we incurred restructuring expenses of $63.3 million. We expect to achieve approximately $225 million of annual cost savings, which is expected to contribute to $85 million of cost savings in fiscal 2019.

Other Income

Our other income for the three months ended December 31, 2018 increased to $3.6 million from $2.3 million for the corresponding period last year.

Other income is primarily comprised of interest income.

Interest Expense

Our interest expense for the three months ended December 31, 2018 decreased to $56.0 million as compared to $56.2 million for the corresponding period last year.

Income Tax Benefit

Our income tax benefit for the three months ended December 31, 2018 was $33.6 million as compared to $47.1 million in the corresponding period last year. The decrease in tax benefit for the current period compared to the corresponding period last year is due primarily to a greater tax benefit from accounting for the tax impacts of the Tax Act and benefits related to changes in uncertain tax positions in the first quarter of fiscal 2018 as compared to the benefit recorded in the first quarter of fiscal 2019 related to releasing a valuation allowance as a result of final regulations related to the Tax Act.

During the first quarter of fiscal 2019, a valuation allowance in the amount of $38.1 million related to foreign tax credits was released due to sufficient positive evidence obtained during the quarter. The positive evidence included the issuance of regulations related to the Tax Act during the quarter and forecasting the utilization of the foreign tax credits within the foreseeable future. This item is not expected to have a continuing impact on the effective tax rate for the remainder of the fiscal year. During the first quarter of fiscal 2018, we recorded a tax benefit of $41.7 million related to one-time U.S. federal tax law changes and recorded a benefit of $11.2 million related to changes in uncertain tax positions primarily in the U.S. and Canada.

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During the first quarter of 2018, President Trump signed the Tax Act into law. The Tax Act reduced our U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on accumulated earnings of foreign subsidiaries, created new taxes on certain foreign sourced earnings, and eliminated or reduced certain deductions.

In the first quarter of 2018, we remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which is generally 21%. The amount recorded related to the remeasurement of our deferred tax balance was a $36.1 million tax benefit. In addition, we released the deferred tax liability and recorded a tax benefit related to certain foreign subsidiaries for which the undistributed earnings are not intended to be reinvested indefinitely for $77.0 million and accrued current tax on these earnings as part of the one-time transition tax.

Also during the first quarter 2018, we recorded a provisional amount for the one-time transition tax liability for our foreign subsidiaries resulting in an increase in income tax expense of $71.4 million. During the first quarter of fiscal 2019, we completed our calculation of the total foreign earnings and profits of our foreign subsidiaries and recorded a tax benefit of $1.5 million.

Certain operations in Canada continue to have losses and the associated valuation allowances could be reduced if and when our current and forecast profits trend turns and sufficient evidence exists to support the release of the related valuation allowance (approximately $41 million).

We regularly integrate and consolidate our business operations and legal entity structure, and such internal initiatives could impact the assessment of uncertain tax positions, indefinite reinvestment assertions and the realizability of deferred tax assets.

Net Income Attributable to AECOM

The factors described above resulted in net income attributable to AECOM of $51.5 million for the three months ended December 31, 2018 as compared to net income attributable to AECOM of $111.3 million for the three months ended December 31, 2017.

Results of Operations by Reportable Segment:

Design and Consulting Services

	Three Months Ended			
	December 31, 2018	December 31, 2017	Change $	Change %
	(in millions)			
Revenue	$ 2,029.7	$ 1,941.9	$ 87.8	4.5%
Cost of revenue	1,914.0	1,864.1	49.9	2.7
Gross profit	$ 115.7	$ 77.8	$ 37.9	48.7%

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

	Three Months Ended	
	December 31, 2018	December 31, 2017
Revenue	100.0%	100.0%
Cost of revenue	94.3	96.0
Gross profit	5.7%	4.0%

Revenue

Revenue for our DCS segment for the three months ended December 31, 2018 increased $87.8 million, or 4.5%, to $2,029.7 million as compared to $1,941.9 million for the corresponding period last year.

The increase in revenue for the three months ended December 31, 2018 was primarily attributable to an increase in the Americas of $110 million, largely due to increased work performed on a residential housing storm disaster relief program.

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Gross Profit

Gross profit for our DCS segment for the three months ended December 31, 2018 increased $37.9 million, or 48.7%, to $115.7 million as compared to $77.8 million for the corresponding period last year. As a percentage of revenue, gross profit increased to 5.7% of revenue for the three months ended December 31, 2018 from 4.0% in the corresponding period last year.

The increases in gross profit and gross profit as a percentage of revenue for the quarter ended December 31, 2018 were primarily due to increased revenues in the Americas, including the residential housing disaster relief program discussed above and severance costs in the prior period.

Construction Services

	Three Months Ended				Change			
	December 31, 2018		December 31, 2017		$		%
			(in millions)				
Revenue	$	2,014.5	$	2,125.5	$	(111.0)	(5.2)%
Cost of revenue		2,011.3		2,098.4		(87.1)	(4.2)
Gross profit	$	3.2	$	27.1	$	(23.9)	(88.2)%

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

	Three Months Ended	
	December 31, 2018	December 31, 2017
Revenue	100.0%	100.0%
Cost of revenue	99.8	98.7
Gross profit	0.2%	1.3%

Revenue

Revenue for our CS segment for the three months ended December 31, 2018 decreased $111.0 million, or 5.2%, to $2,014.5 million as compared to $2,125.5 million for the corresponding period last year.

The decrease in revenue for the three months ended December 31, 2018 was primarily attributable to approximately $70 million in decreased revenue from our power business and approximately $60 million in decreased revenue from the construction of residential high-rise buildings in the city of New York.

Gross Profit

Gross profit for our CS segment for the three months ended December 31, 2018 decreased $23.9 million, or 88.2%, to $3.2 million as compared to $27.1 million for the corresponding period last year. As a percentage of revenue, gross profit decreased to 0.2% of revenue for the three months ended December 31, 2018 from 1.3% in the corresponding period last year.

The decreases in gross profit and gross profit as a percentage of revenue for the three months ended December 31, 2018 were primarily due to project performance on a power contract in the United States in the three months ended December 31, 2017 that did not repeat in the current period.

<u>Management Services</u>

	Three Months Ended			
	December 31, 2018	December 31, 2017	Change $	Change %
	(in millions)			
Revenue	$ 989.4	$ 843.4	$ 146.0	17.3%
Cost of revenue	941.6	812.1	129.5	15.9
Gross profit	$ 47.8	$ 31.3	$ 16.5	52.7%

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

	Three Months Ended	
	December 31, 2018	December 31, 2017
Revenue	100.0%	100.0%
Cost of revenue	95.2	96.3
Gross profit	4.8%	3.7%

Revenue

Revenue for our MS segment for the three months ended December 31, 2018 increased $146.0 million, or 17.3%, to $989.4 million as compared to $843.4 million for the corresponding period last year.

The increase in revenue for the quarter ended December 31, 2018 was primarily due to a project with the federal government.

Gross Profit

Gross profit for our MS segment for the three months ended December 31, 2018 increased $16.5 million, or 52.7%, to $47.8 million as compared to $31.3 million for the corresponding period last year. As a percentage of revenue, gross profit increased to 4.8% of revenue for the three months ended December 31, 2018 from 3.7% in the corresponding period last year.

The increase in gross profit was primarily due to a project with the federal government.

AECOM Capital

	Three Months Ended		Change	
	December 31, 2018	December 31, 2017	$	%
		(in millions)		
Revenue	$ 3.9	$	$ 3.9	NM*
Equity in loss of joint ventures	(2.5)		(2.5)	NM*
General and administrative expenses	(1.7)	(2.6)	0.9	(34.6)%

** NM Not Meaningful*

Results of operations for ACAP did not significantly change for the three months ended December 31, 2018 compared to the same period in the prior year.

Seasonality

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

Liquidity and Capital Resources

Cash Flows

As a result of the U.S. federal government s partial shutdown beginning in December 2018, we have experienced delays in federal payments during the three-month period ended December 31, 2018 that impacted operational cash flow. Continuation of the U.S. federal government shutdown could significantly reduce demand for our services, result in further payment delays, and lead to workforce reductions that may have a material adverse effect on our results of operation and financial condition.

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Our principal sources of liquidity are cash flows from operations, borrowings under our credit facilities, and access to financial markets. Our principal uses of cash are operating expenses, capital expenditures, working capital requirements, acquisitions, repurchases of common stock, and repayment of debt. We believe our anticipated sources of liquidity including operating cash flows, existing cash and cash equivalents, borrowing capacity under our revolving credit facility and our ability to issue debt or equity, if required, will be sufficient to meet our projected cash requirements for at least the next twelve months. We sold non-core oil and gas assets in fiscal 2018 and we expect to sell additional non-core oil and gas assets in the next twelve months. We expect to spend approximately $60 to $70 million in restructuring costs in fiscal 2019, and we also expect to evaluate our geographic exposure as part of a proposed plan to exit more than 30 countries, subject to applicable laws, to improve profitability and reduce our risk profile.

Generally, we do not provide for U.S. taxes or foreign withholding taxes on gross book-tax basis differences in our non-U.S. subsidiaries because such basis differences are able to and intended to be reinvested indefinitely. At December 31, 2018, we have determined that we will continue to indefinitely reinvest the earnings of some foreign subsidiaries and therefore we will continue to account for these undistributed earnings based on our existing accounting under ASC 740 and not accrue additional tax outside of the one-time transition tax required under the *Tax Cuts and Jobs Act* that was enacted on December 22, 2017. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. Based on the available sources of cash flows discussed above, we anticipate we will continue to have the ability to permanently reinvest these remaining amounts.

At December 31, 2018, cash and cash equivalents were $838.3 million, a decrease of $48.4 million, or 5.5%, from $886.7 million at September 30, 2018. The decrease in cash and cash equivalents was primarily attributable to cash used in operating activities, investments in unconsolidated joint ventures and repurchases of common stock, partially offset by net borrowings under our credit agreement.

Net cash used in operating activities was $200.4 million for the three months ended December 31, 2018, compared with net cash provided of $52.4 million for the three months ended December 31, 2017. The decrease was primarily attributable to the timing of receipts and payments of working capital, which includes accounts receivable, contract assets, accounts payable, accrued expenses, and contract liabilities. The sale of trade receivables to financial institutions during the three months ended December 31, 2018 provided a net benefit of $13.9 million as compared to $29.6 million during the three months ended December 31, 2017. We expect to continue to sell trade receivables in the future as long as the terms continue to remain favorable to us.

Net cash used in investing activities was $59.7 million for the three months ended December 31, 2018, as compared to $27.5 million for the three months ended December 31, 2017. This increase in cash used was primarily attributable to an increase in investments in unconsolidated joint ventures of $23.7 million.

Net cash provided by financing activities was $213.2 million for the three months ended December 31, 2018 as compared to net cash used of $17.0 million for the three months ended December 31, 2017. This change was primarily attributable to an increase in net borrowings under our credit agreements, partially offset by repurchases of common stock.

Working Capital

Working capital, or current assets less current liabilities, increased $211.2 million, or 21.2%, to $1,208.8 million at December 31, 2018 from $997.6 million at September 30, 2018. Net accounts receivable and contract assets, net of contract liabilities, stayed flat at $4,537.4 million at December 31, 2018 and September 30, 2018.

Days Sales Outstanding (DSO), which includes net accounts receivable and contract assets, net of contract liabilities, and excludes the effects of recent acquisitions, was 82 days at December 31, 2018 compared to 78 days at September 30, 2018.

In Note 4, Revenue Recognition, in the notes to our consolidated financial statements, a comparative analysis of the various components of accounts receivable is provided. Except for claims, substantially all contract assets are expected to be billed and collected within twelve months.

Contract assets related to claims are recorded only if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated. In such cases, revenue is recorded only to the extent that contract costs relating to the claim have been incurred. Award fees in contract assets are accrued only when there is sufficient information to assess contract performance. On contracts that represent higher than normal risk or technical difficulty, award fees are generally deferred until an award fee letter is received.

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

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Debt

Debt consisted of the following:

	December 31, 2018	September 30, 2018
	(in millions)	
2014 Credit Agreement	$ 1,699.8	$ 1,433.8
2014 Senior Notes	800.0	800.0
2017 Senior Notes	1,000.0	1,000.0
URS Senior Notes	247.9	247.9
Other debt	216.8	191.8
Total debt	3,964.5	3,673.5
Less: Current portion of debt and short-term borrowings	(160.8)	(143.1)
Less: Unamortized debt issuance costs	(44.2)	(46.7)
Long-term debt	$ 3,759.5	$ 3,483.7

The following table presents, in millions, scheduled maturities of our debt as of December 31, 2018:

Fiscal Year	
2019 (nine months remaining)	$ 132.1
2020	101.6
2021	341.3
2022	305.0
2023	748.3
Thereafter	2,336.2
Total	$ 3,964.5

2014 Credit Agreement

We entered into a credit agreement (Credit Agreement) on October 17, 2014, which, as amended to date, consists of (i) a term loan A facility that includes a $510 million (US) term loan A facility with a term expiring on March 13, 2021 and a $500 million Canadian dollar (CAD) term loan A facility and a $250 million Australian dollar (AUD) term loan A facility, each with terms expiring on March 13, 2023; (ii) a $600 million term loan B facility with a term expiring on March 13, 2025; and (iii) a revolving credit facility in an aggregate principal amount of $1.35 billion with a term expiring on March 13, 2023. Some of our subsidiaries (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers obligations under the Credit Agreement are secured by a lien on substantially all of our assets and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of conditions specified in the Credit Agreement and Security Agreement.

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

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

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

On September 29, 2016, the Credit Agreement and the Security Agreement were amended to (1) lower the applicable interest rate margins for the term loan A and the revolving credit facilities, and lower the applicable letter of credit fees and commitment fees to the revised consolidated leverage levels; (2) extend the term of the term loan A and the revolving credit facility to September 29, 2021; (3) add a new delayed draw term loan A facility tranche in the amount of $185.0 million; (4) replace the then existing $500 million performance letter of credit facility with a $500 million basket to enter into secured letters of credit outside the Credit Agreement; and (5) revise covenants, including the Maximum Consolidated Leverage Ratio, so that the step down from a 5.00 to a 4.75 leverage ratio is effective as of March 31, 2017 as well as the investment basket for our AECOM Capital business.

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On March 31, 2017, the Credit Agreement was amended to (1) expand the ability of restricted subsidiaries to borrow under Incremental Term Loans; (2) revise the definition of Working Capital as used in Excess Cash Flow; (3) revise the definitions for Consolidated EBITDA and Consolidated Funded Indebtedness to reflect the expected gain and debt repayment of an AECOM Capital disposition, which disposition was completed on April 28, 2017; and (4) amend provisions relating to our ability to undertake internal restructuring steps to accommodate changes in tax laws.

On March 13, 2018, the Credit Agreement was amended to (1) refinance the existing term loan A facility to include a $510 million (US) term loan A facility with a term expiring on March 13, 2021 and a $500 million CAD term loan A facility and a $250 million AUD term loan A facility each with terms expiring on March 13, 2023; (2) issue a new $600 million term loan B facility to institutional investors with a term expiring on March 13, 2025; (3) increase the capacity of our revolving credit facility from $1.05 billion to $1.35 billion and extend its term until March 13, 2023; (4) reduce our interest rate borrowing costs as follows: (a) the term loan B facility, at our election, Base Rate (as defined in the Credit Agreement) plus 0.75% or Eurocurrency Rate (as defined in the Credit Agreement) plus 1.75%, (b) the (US) term loan A facility, at our election, Base Rate plus 0.50% or Eurocurrency Rate plus 1.50%, and (c) the Canadian (CAD) term loan A facility, the Australian (AUD) term loan A facility, and the revolving credit facility, an initial rate of, at our election, Base Rate plus 0.75% or Eurocurrency Rate plus 1.75%, and after the end of our fiscal quarter ended June 30, 2018, Base Rate loans plus a margin ranging from 0.25% to 1.00% or Eurocurrency Rate plus a margin from 1.25% to 2.00%, based on the Consolidated Leverage Ratio (as defined in the Credit Agreement); (5) revise covenants including increasing the amounts available under the restricted payment negative covenant and revising the Maximum Consolidated Leverage Ratio (as defined in the Credit Agreement) to include a 4.5 leverage ratio through September 30, 2019 after which the leverage ratio steps down to 4.0.

On November 13, 2018, the Credit Agreement was amended to revise the definition of Consolidated EBITDA to increase corporate restructuring allowances and provide for additional flexibility under the covenants for non-core asset dispositions, among other changes.

Under the Credit Agreement, we are subject to a maximum consolidated leverage ratio and minimum consolidated interest coverage ratio at the end of each fiscal quarter. Our Consolidated Leverage Ratio was 4.2 at December 31, 2018. Our Consolidated Interest Coverage Ratio was 4.5 at December 31, 2018. As of December 31, 2018, we were in compliance with the covenants of the Credit Agreement.

At December 31, 2018 and September 30, 2018, outstanding standby letters of credit totaled $27.2 million and $28.7 million, respectively, under our revolving credit facilities. As of December 31, 2018 and September 30, 2018, we had $1,014.8 million and $1,321.3 million, respectively, available under our revolving credit facility.

2014 Senior Notes

On October 6, 2014, we completed a private placement offering of $800,000,000 aggregate principal amount of the unsecured 5.750% Senior Notes due 2022 (2022 Notes) and $800,000,000 aggregate principal amount of the unsecured 5.875% Senior Notes due 2024 (the 2024 Notes and, together with the 2022 Notes, the 2014 Senior Notes). On November 2, 2015, we completed an exchange offer to exchange the unregistered 2014 Senior Notes for registered notes, as well as all related guarantees. On March 16, 2018, we redeemed all of the 2022 Notes at a redemption price that was 104.313% of the principal amount outstanding plus accrued and unpaid interest. The March 16, 2018 redemption resulted in a $34.5 million prepayment premium, which was included in interest expense.

As of December 31, 2018, the estimated fair value of the 2024 Notes was approximately $788.0 million. The fair value of the 2024 Notes as of December 31, 2018 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the 2024 Notes.

At any time prior to July 15, 2024, we may redeem on one or more occasions all or part of the 2024 Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of the redemption, plus any accrued and unpaid interest to the date of redemption. In addition, on or after July 15, 2024, the 2024 Notes may be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

The indenture pursuant to which the 2024 Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide notices thereunder and provisions related to bankruptcy events. The indenture also contains customary negative covenants.

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We were in compliance with the covenants relating to the 2024 Notes as of December 31, 2018.

2017 Senior Notes

On February 21, 2017, we completed a private placement offering of $1,000,000,000 aggregate principal amount of our unsecured 5.125% Senior Notes due 2027 (the 2017 Senior Notes) and used the proceeds to immediately retire the remaining $127.6 million outstanding on the then existing term loan B facility as well as repay $600 million of the term loan A facility and $250 million of the revolving credit facility under our Credit Agreement. On June 30, 2017, we completed an exchange offer to exchange the unregistered 2017 Senior Notes for registered notes, as well as related guarantees.

As of December 31, 2018, the estimated fair value of the 2017 Senior Notes was approximately $852.5 million. The fair value of the 2017 Senior Notes as of December 31, 2018 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the 2017 Senior Notes. Interest will be payable on the 2017 Senior Notes at a rate of 5.125% per annum. Interest on the 2017 Senior Notes will be payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2017. The 2017 Senior Notes will mature on March 15, 2027.

At any time and from time to time prior to December 15, 2026, we may redeem all or part of the 2017 Senior Notes, at a redemption price equal to 100% of their principal amount, plus a make whole premium as of the redemption date, and accrued and unpaid interest to the redemption date.

In addition, at any time and from time to time prior to March 15, 2020, we may redeem up to 35% of the original aggregate principal amount of the 2017 Senior Notes with the proceeds of one or more qualified equity offerings, at a redemption price equal to 105.125%, plus accrued and unpaid interest. Furthermore, at any time on or after December 15, 2026, we may redeem on one or more occasions all or part of the 2017 Senior Notes at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest.

The indenture pursuant to which the 2017 Senior Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide notices thereunder and provisions related to bankruptcy events. The indenture also contains customary negative covenants.

We were in compliance with the covenants relating to the 2017 Senior Notes as of December 31, 2018.

URS Senior Notes

In connection with the acquisition of URS on October 17, 2014, we assumed the URS 3.85% Senior Notes due 2017 (2017 URS Senior Notes) and the URS 5.00% Senior Notes due 2022 (2022 URS Senior Notes), totaling $1.0 billion (URS Senior Notes). The URS acquisition triggered change in control provisions in the URS Senior Notes that allowed the holders of the URS Senior Notes to redeem their URS Senior Notes at a cash price equal to 101% of the principal amount and, accordingly, we redeemed $572.3 million of the URS Senior Notes on October 24, 2014. The remaining 2017 URS Senior Notes matured and were fully redeemed on April 3, 2017 for $179.2 million using proceeds from a $185 million delayed draw term loan A facility tranche under the Credit Agreement. The 2022 URS Senior Notes are general unsecured senior obligations of AECOM Global II, LLC as successor in interest to URS and are fully and unconditionally guaranteed on a joint-and-several basis by some former URS domestic subsidiary guarantors.

As of December 31, 2018, the estimated fair value of the 2022 URS Senior Notes was approximately $243.6 million. The carrying value of the 2022 URS Senior Notes on our Consolidated Balance Sheets as of December 31, 2018 was $247.9 million. The fair value of the 2022 URS Senior Notes as of December 31, 2018 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the 2022 URS Senior Notes.

As of December 31, 2018, we were in compliance with the covenants relating to the 2022 URS Senior Notes.

Other Debt and Other Items

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. Our unsecured credit facilities are primarily used for standby letters of credit issued in connection with general and professional liability insurance programs and for contract performance guarantees. At December 31, 2018 and September 30, 2018, these outstanding standby letters of credit totaled $509.8 million and $486.4 million, respectively. As of December 31, 2018, we had $474.0 million available under these unsecured credit facilities.

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Effective Interest Rate

Our average effective interest rate on our total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2018 and 2017 was 4.7% and 4.8%, respectively.

Interest expense in the consolidated statement of operations included amortization of deferred debt issuance costs for the three months ended December 31, 2018 and 2017 was $2.4 million and $2.9 million, respectively.

Other Commitments

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

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

Under our secured revolving credit facility and other facilities discussed in Other Debt above, as of December 31, 2018, there was approximately $537.0 million outstanding under standby letters of credit primarily issued in connection with general and professional liability insurance programs and for contract performance guarantees. For those projects for which we have issued a performance guarantee, if the project subsequently fails to meet guaranteed performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to achieve the required performance standards.

We recognized on our balance sheet the funded status of our pension benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. At December 31, 2018, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately $381.8 million. The total amounts of employer contributions paid for the three months ended December 31, 2018 were $2.5 million for U.S. plans and $7.9 million for non-U.S. plans. Funding requirements for each plan are determined based on the local laws of the country where such plan resides. In some countries, the funding requirements are mandatory while in other countries, they are discretionary. There is a required minimum contribution for one of our domestic plans; however, we may make additional discretionary contributions. In the future, such pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors. In addition, we have collective bargaining agreements with unions that require us to contribute to various third party multiemployer pension plans that we do not control or manage.

New Accounting Pronouncements and Changes in Accounting

For information regarding recent accounting pronouncements, see Notes to Consolidated Financial Statements included in Part I, Item 1.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Financial Market Risks

Financial Market Risks

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

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Foreign Exchange Rates

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

Interest Rates

Our Credit Agreement and other debt obligations are subject to variable rate interest which could be adversely affected by an increase in interest rates. As of December 31, 2018, we had $1,699.8 million in outstanding borrowings under our term credit agreements and our revolving credit facility. Interest on amounts borrowed under these agreements is subject to adjustment based on specified levels of financial performance. The applicable margin that is added to the borrowing s base rate can range from 0.25% to 2.00%. For the three months ended December 31, 2018, our weighted average floating rate borrowings were $2,130.0 million, or $1,483.6 million excluding borrowings with effective fixed interest rates due to interest rate swap agreements. If short-term floating interest rates had increased by 1.00%, our interest expense for the three months ended December 31, 2018 would have increased by $3.7 million. We invest our cash in a variety of financial instruments, consisting principally of money market securities or other highly liquid, short-term securities that are subject to minimal credit and market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on management s evaluation, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), our CEO and CFO have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), were effective as of December 31, 2018 to ensure that information required to be disclosed by us in this Quarterly Report on Form 10-Q or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2018 identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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Item 1A. Risk Factors

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

A United States federal government shutdown could result in payment delays and reduced demand for our services that material impact our results of operation and financial condition.

The partial shutdown of the U.S. federal government beginning in December 2018 has resulted in substantial federal payment delays that have negatively impacted our operational cash flow. Another U.S. federal government shutdown of similar or greater duration could significantly reduce demand for our services, delay payment and result in workforce reductions that may have a material adverse effect on our results of operation and financial condition. Moreover, a prolonged government shutdown could result in program cancellations, disruptions and/or stop work orders and could limit the U.S. federal government s ability effectively to process and our ability to perform on our U.S. government contracts and successfully compete for new work.

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

Demand for our services is cyclical and may be vulnerable to sudden economic downturns, interest rate fluctuations and reductions in government and private industry spending that result in clients delaying, curtailing or canceling proposed and existing projects. For example, commodity price volatility has previously impacted our oil and gas business and business regions whose economies are substantially dependent on commodities prices such as the Middle East and has also impacted North American oil and gas clients investment decisions.

In March 2018, President Trump signed proclamations to impose tariffs on steel and aluminum imports per the US Trade Expansion Act of 1962 increasing the price for steel and aluminum in the United States which could impact client spending. Where economies are weakening, our clients may demand more favorable pricing or other terms while their ability to pay our invoices or to pay them in a timely manner may be adversely affected. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects. If economic conditions remain uncertain and/or weaken and/or government spending is reduced, our revenue and profitability could be adversely affected.

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

A substantial portion of our revenue is derived from contracts with agencies and departments of national, state and local governments. During fiscal 2018 and 2017, approximately 53% and 48%, respectively, of our revenue was derived from contracts with government entities.

Most government contracts are subject to the government s budgetary approval process. Legislatures typically appropriate funds for a given program on a year-by-year basis, even though contract performance may take more than one year. In addition, public-supported financing such as state and local municipal bonds may be only partially raised to support existing infrastructure projects. As a result, at the beginning of a program, the related contract is only partially funded, and additional funding is normally committed only as appropriations are made in each fiscal year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by, among other things, the state of the economy, a government shutdown, competing priorities for appropriation, changes in administration or control of legislatures and the timing and amount of tax receipts and the overall level of government expenditures. Similarly, the impact of an economic downturn on state and local governments may make it more difficult for them to fund infrastructure projects. If appropriations are not made in subsequent years on our government contracts, then we will not realize all of our potential revenue and profit from that contract.

If we are unable to win or renew government contracts during regulated procurement processes, our operations and financial results would be harmed.

Government contracts are awarded through a regulated procurement process. The federal government has awarded multi-year contracts with pre-established terms and conditions, such as indefinite delivery contracts, that generally require those contractors that have previously been awarded the indefinite delivery contract to engage in an additional competitive bidding process before a task

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order is issued. In addition, the federal government has also awarded federal contracts based on a low-price, technically acceptable criteria emphasizing price over qualitative factors, such as past performance. As a result of these competitive pricing pressures, our profit margins on future federal contracts may be reduced and may require us to make sustained efforts to reduce costs in order to realize revenues and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. In addition, we may not be awarded government contracts because of existing government policies designed to protect small businesses and under-represented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and reduce our profits and revenues.

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

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

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

Our books and records are subject to audit by the various governmental agencies we serve and their representatives. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies. If such matters are not resolved in our favor, they could have a material adverse effect on our business. In addition, if one of our subsidiaries is charged with wrongdoing as a result of an audit, that subsidiary, and possibly our company as a whole, could be temporarily suspended or could be prohibited from bidding on and receiving future government contracts for a period of time. Furthermore, as a government contractor, we are subject to an increased risk of investigations, criminal prosecution, civil fraud actions, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not, the results of which could materially adversely impact our business. For example, a qui tam lawsuit related to our affiliate, URS Energy and Construction, was unsealed in 2016. Qui tam lawsuits typically allege that we have made false statements or certifications in connection with claims for payment, or improperly retained overpayments, from the government. These suits may remain under seal (and hence, be unknown to us) for some time while the government decides whether to intervene on behalf of the qui tam plaintiff.

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

We had approximately $4.0 billion of indebtedness (excluding intercompany indebtedness) outstanding as of December 31, 2018, of which $1.9 billion was secured obligations (exclusive of $27.2 million of outstanding undrawn letters of credit) and we have an additional $1.0 billion of availability under our Credit Agreement (after giving effect to outstanding letters of credit), all of which would be secured debt, if drawn. Our financial performance could be adversely affected by our substantial leverage. We may also incur significant additional indebtedness in the future, subject to various conditions.

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

- we may have difficulty satisfying our obligations with respect to outstanding debt obligations;

- we may have difficulty obtaining financing in the future for working capital, acquisitions, capital expenditures or other purposes;

- we may need to use all, or a substantial portion, of our available excess cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities, including, but not limited to, working capital requirements, acquisitions, capital expenditures or other general corporate or business activities;

- our debt level increases our vulnerability to general economic downturns and adverse industry conditions;

- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;

- our substantial amount of debt and the amount we must pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt;

- we may have increased borrowing costs;

- our clients, surety providers or insurance carriers may react adversely to our significant debt level;

- we may have insufficient funds, and our debt level may also restrict us from raising the funds necessary, to retire our debt instruments tendered to us upon maturity of our debt or the occurrence of a change of control, which would constitute an event of default under our debt instruments; and

- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or prospects.

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

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

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

The Credit Agreement and the indentures governing our debt contain a number of significant covenants that impose operating and other restrictions on us and our subsidiaries. Such restrictions affect or will affect, and in many respects limit or prohibit, among other things, our ability and the ability of some of our subsidiaries to:

- incur additional indebtedness;

- create liens;

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

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

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

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

- declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;
- require us to apply all of our available cash to repay the borrowings; or

- prevent us from making debt service payments on our borrowings.

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

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

Borrowings under our Credit Agreement are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. A 1.00% increase in such interest rates would increase total interest expense under our Credit Agreement for the three months ended December 31, 2018 by $3.7 million, including the effect of our interest rate swaps. We may, from time to time, enter into additional interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk and could be subject to credit risk themselves.

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

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

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

Under the Budget Control Act of 2011, an automatic sequestration process, or across-the-board budget cuts (half of which were defense-related), was triggered when the Joint Select Committee on Deficit Reduction, a committee of twelve members of Congress, failed to agree on a deficit reduction plan for the U.S. federal budget. Although the Bipartisan Budget Act of 2013, and the subsequent Balanced Budget Acts of 2015 and 2018 have provided some sequester relief until the end of fiscal year 2019, the Budget Control Act of 2011 remains in place, extended through 2027 and absent additional legislative or other remedial action, the sequestration could require reduced U.S. federal government spending from fiscal 2020 through fiscal 2027. A significant reduction in federal government spending or a change in budgetary priorities could reduce demand for our services, cancel or delay federal projects, and result in the closure of federal facilities and significant personnel reductions, which could have a material adverse effect on our results of operations and financial condition.

The United Kingdom s proposed withdrawal from the European Union could have an adverse effect on our business and financial results.

In March 2017, the United Kingdom government initiated a process to withdraw from the European Union (Brexit) and began negotiating the terms of its separation. Brexit has created substantial economic and political uncertainty and volatility in currency exchange rates, and the terms of the United Kingdom s withdrawal from the European Union may not be determined for several years or more. Our United Kingdom business is a significant part of our European operations with approximately 7,000 employees and revenues representing approximately 4% of our total revenue for the fiscal year ended September 30, 2018. The uncertainty created by Brexit may cause our customers to closely monitor their costs and reduce demand for our services and may ultimately result in new regulatory and cost challenges for our United Kingdom and global operations. Any of these events could adversely affect our United Kingdom, European and overall business and financial results.

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 2018, revenue attributable to our services provided outside of the United States to non-U.S. clients was approximately 27% 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, such as in the Middle East and Africa;
- 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, such as Brexit;
- potential non-compliance with a wide variety of laws and regulations, including anti-corruption, export control and anti-boycott laws and similar non-U.S. laws and regulations;
- changes in labor conditions;
- logistical and communication challenges; and
- currency exchange rate fluctuations, devaluations and other conversion restrictions.

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

In addition, Saudi Arabia, the United Arab Emirates (UAE), Bahrain and Egypt have cut diplomatic ties and restricted business with Qatar by closing off access to that country with an air, sea and land traffic embargo. During the economic embargo, products cannot be shipped directly to Qatar from the UAE, Saudi Arabia or Bahrain and financial services may be limited. Our Qatarian business is a significant part of our Middle East operations with approximately several hundred employees. The economic embargo may make it difficult to complete ongoing Qatarian projects and could reduce future demand for our services.

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

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

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

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

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

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

Cybersecurity threats and information technology systems outages could adversely harm our business.

We develop, install and maintain information technology systems for our clients and employees. We may experience errors, outages, or delays of service in our information technology systems, which could significantly disrupt our operations, impact our clients and employees, damage our reputation, and result in litigation and regulatory fines or penalties. Client contracts for the performance of information technology services, primarily with the federal government, as well as various privacy and securities laws pertaining to client and employee usage, require us to manage and protect sensitive and proprietary information. For example, the European s Union General Data Protection Regulation, which became effective in May 2018, extends the scope of the European Union data protection laws to all companies processing data of European Union residents, regardless of the company s location.

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We face threats to our information technology systems, including unauthorized access, computer hackers, computer viruses, malicious code, cyber-attacks, phishing and other cybersecurity problems and system disruptions, including possible unauthorized access to our and our clients proprietary information. We rely on industry-accepted security measures and technology to securely maintain all proprietary information on our information technology systems. In the ordinary course of business, we have been targeted by malicious cyber-attacks. Anyone who circumvents our security measures could misappropriate proprietary information, including information regarding us, our employees and/or our clients, or cause interruptions in our operations. Although we devote significant resources to our cybersecurity programs and have implemented security measures to protect our systems and to prevent, detect and respond to cybersecurity incidents, there can be no assurance that our efforts will prevent these threats. As these security threats continue to evolve, we may be required to devote additional resources to protect, prevent, detect and respond against system disruptions and security breaches.

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

Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows. Furthermore, while we maintain insurance, that specifically cover these attacks, our coverage may not sufficiently cover all types of losses or claims that may arise.

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

Because we have grown in part through acquisitions, goodwill and intangible assets-net represent a substantial portion of our assets. Under generally accepted accounting principles in the United States (GAAP), we are required to test goodwill carried in our Consolidated Balance Sheets for possible impairment on an annual basis based upon a fair value approach and whenever events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in a reporting unit s market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, a significant sustained decline in our market capitalization and other factors. For example, in the year ended September 30, 2018, we recorded an impairment of assets held for sale, which included a goodwill impairment charge of $125.4 million related to the anticipated disposition of non-core oil and gas businesses.

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

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

Fixed-price contracts require us to either perform all work under the contract for a specified lump-sum or to perform an estimated number of units of work at an agreed price per unit, with the total payment determined by the actual number of units performed. In addition, we may enter guaranteed maximum price contracts where we guarantee a price or delivery date. For the year ended September 30, 2018, our revenue was comprised of 47%, 23%, and 30% cost-reimbursable, guaranteed maximum price, and fixed-price contracts, respectively. Fixed-price contracts expose us to a number of risks not inherent in cost-reimbursable contracts, including underestimation of costs, ambiguities in specifications, unforeseen increases in or failures in estimating the cost of raw materials, equipment or labor, problems with new technologies, delays beyond our control, fluctuations in profit margins, failures of subcontractors to perform and economic or other changes that may occur during the contract period. In March 2018, President Trump signed proclamations to impose tariffs on steel and aluminum imports increasing the prices for steel and aluminum in the United States which could affect the profitability of our fixed-price construction projects. Losses under fixed-price or guaranteed contracts could be substantial and adversely impact our results of operations.

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

In some circumstances, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. If we or an entity for which we have provided a guarantee subsequently fails to complete the project as scheduled and the matter cannot be satisfactorily resolved with the client, we may be responsible for cost impacts to the client resulting from any delay or the cost to complete the project. Our costs generally increase from schedule delays and/or could exceed our projections for a particular project. In addition, project performance can be affected by a number of factors beyond our control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. Material performance problems for existing and future contracts could cause actual results of operations to differ from those anticipated by us and also could cause us to suffer damage to our reputation within our industry and client base.

We may not be able to maintain adequate surety and financial capacity necessary for us to successfully bid on and win contracts.

In line with industry practice, we are often required to provide surety bonds, standby letters of credit or corporate guarantees to our clients that indemnify the customer should our affiliate fail to perform its obligations under the terms of a contract. As of December 31, 2018 and September 30, 2018, we were contingently liable for $5.6 billion and $5.3 billion, respectively, in issued surety bonds primarily to support project execution and we had outstanding letters of credit totaling $537.0 million and $515.1 million, respectively. A surety may issue a performance or payment bond to guarantee to the client that our affiliate will perform under the terms of a contract. If our affiliate fails to perform under the terms of the contract, then the client may demand that the surety or another corporate affiliate provide the contracted services. In addition, we would typically have obligations to indemnify the surety for any loss incurred in connection with the bond. If a surety bond or a letter of credit is required for a particular project and we are unable to obtain an appropriate surety bond or letter of credit, we may not be able to pursue that project, which in turn could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

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

Approximately 15% of our fiscal 2018 revenue was derived from our operations through joint ventures or similar partnership arrangements, where control may be shared with unaffiliated third parties. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. Sales of our services provided to our unconsolidated joint ventures were approximately 2% of our fiscal 2018 revenue. We generally do not have control of these unconsolidated joint ventures. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our financial condition and results of operations and could also affect our reputation in the industries we serve.

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

We have investments in and commitments to joint ventures with unrelated parties, including in connection with construction services, government services, and the investment activities of ACAP. For example, real estate and infrastructure joint ventures are inherently risky and may result in future losses since real estate markets are impacted by economic trends and government policies that we do not control. These joint ventures from time to time may borrow money to help finance their activities and in some circumstances, we are required to provide guarantees of obligations of our affiliated entities. In addition, in connection with the investment activities of ACAP, we provide guarantees of obligations, including guarantees for completion of projects, repayment of debt, environmental indemnity obligations and other lender required guarantees. If these entities are not able to honor their obligations under the guarantees, we may be required to expend additional resources or suffer losses, which could be significant.

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AECOM Capital s real estate development and investment activities are inherently risky and may result in a future loss.

ACAP s real estate business involves managing, sponsoring, investing and developing commercial real estate projects (Real Estate Joint Ventures) that are inherently risky and may result in future losses since real estate markets are significantly impacted by economic trends and government policies that we do not control. Our registered investment adviser jointly manages, sponsors and owns an equity interest with its co-partner in the AECOM-Canyon Equity Fund, L.P. (the Fund), which invests and develops Real Estate Joint Ventures on behalf of its investors. Real Estate Joint Ventures rely on substantial amounts of third party borrowing to finance their development activities including completion guarantees, repayment guarantees, environmental indemnities and other lender required credit support guarantees that may be provided by AECOM or an affiliate to secure the Real Estate Joint Venture financing. Although the Fund and the Real Estate Venture have reserves that will be used to share Real Estate Joint Venture cost overruns, if such reserves are depleted, then AECOM may be required to make support payments to fund non-budgeted cost overruns on behalf of the Fund (but not on behalf of the Fund s co-partner or any unaffiliated Real Estate Joint Venture limited partners). Some of the Fund s limited partners may be permitted to make additional equity co-investments in certain Real Estate Joint Ventures for which AECOM will provide support payments, after additional specific reserves have been depleted, on behalf of the limited partner co-investor in the event of a Real Estate Joint Venture cost overrun. AECOM s provision of lender guarantees is contingent upon the Real Estate Joint Venture meeting AECOM s underwriting criteria, including an affiliate of AECOM acting as either the construction manager at risk or the owner s representative for the project, no material adverse change in AECOM s financial condition, and the guarantee not violating a covenant under a material AECOM agreement.

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

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

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

We have defined benefit pension plans for employees in the United States, United Kingdom, Canada, Australia, and Ireland. At September 30, 2018, our defined benefit pension plans had an aggregate deficit (the excess of projected benefit obligations over the fair value of plan assets) of approximately $400.5 million. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors that may require us to make additional cash contributions to our pension plans and recognize further increases in our net pension cost to satisfy our funding requirements. If we are forced or elect to make up all or a portion of the deficit for unfunded benefit plans, our results of operations could be materially and adversely affected.

A multiemployer pension plan is typically established under a collective bargaining agreement with a union to cover the union-represented workers of various unrelated companies. Our collective bargaining agreements with unions will require us to contribute to various multiemployer pension plans; however, we do not control or manage these plans. For the year ended September 30, 2018, we contributed $49.8 million to multiemployer pension plans. Under the Employee Retirement Income Security Act, an employer who contributes to a multiemployer pension plan, absent an applicable exemption, may also be liable, upon termination or withdrawal from the plan, for its proportionate share of the multiemployer pension plan s unfunded vested benefit. If we terminate or withdraw from a multiemployer plan, absent an applicable exemption (such as for some plans in the building and construction industry), we could be required to contribute a significant amount of cash to fund the multiemployer plan s unfunded vested benefit, which could materially and adversely affect our financial results; however, since we do not control the multiemployer plans, we are unable to estimate any potential contributions that could be required.

New legal requirements could adversely affect our operating results.

Our business and results of operations could be adversely affected by the passage of new climate change, defense, environmental, infrastructure and other laws, policies and regulations. Growing concerns about climate change and greenhouse gases, such as those adopted under the United Nations COP-21 Paris Agreement or the EPA Clean Power Plan, may result in the imposition of additional environmental regulations for our clients fossil fuel projects. For example, legislation, international protocols, regulation or other restrictions on emissions regulations could increase the costs of projects for our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services. In addition, relaxation or repeal of laws and regulations, or changes in governmental policies regarding environmental, defense, infrastructure or other industries we serve could result in a decline in demand for our services, which could in turn negatively impact our revenues. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

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

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

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

Demand for our oil and gas services fluctuates.

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

Failure to successfully integrate acquisitions could harm our operating results.

We have grown in part as a result of acquisitions. We cannot assure that suitable acquisitions or investment opportunities will continue to be identified or that any of these transactions can be consummated on favorable terms or at all. Any future acquisitions will involve various inherent risks, such as:

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

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

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

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

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

Furthermore, during the acquisition process and thereafter, our management may need to assume significant transaction-related responsibilities, which may cause them to divert their attention from our existing operations. If our management is unable to successfully integrate acquired companies, our operating results could be harmed. In addition, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings, or sales or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all.

We may be unable to successfully integrate or realize the anticipated benefits of acquisitions or do so within the intended timeframe.

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

- the consequences of a change in tax treatment, including the costs of integration and compliance and the possibility that the full benefits anticipated from the acquisition will not be realized;
- any delay in the integration of management teams, strategies, operations, products and services;
- diversion of the attention of each company s management as a result of the acquisition;
- differences in business backgrounds, corporate cultures and management philosophies that may delay successful integration;
- the ability to retain key employees;
- the ability to create and enforce uniform standards, controls, procedures, policies and information systems;

- the challenge of integrating complex systems, technology, networks and other assets into those of ours in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;

- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition, including costs to integrate beyond current estimates;

- the ability to deduct or claim tax attributes or benefits such as operating losses, business or foreign tax credits; and

- the disruption of, or the loss of momentum in, each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies.

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

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

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

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

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

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

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

The degree and type of competition we face is also influenced by the type and scope of a particular project. Our clients make competitive determinations based upon qualifications, experience, performance, reputa0tion, technology, customer relationships and ability to provide the relevant services in a timely, safe and cost-efficient manner. Increased competition may result in our inability to win bids for future projects and loss of revenue, profitability and market share.

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

Our clients include public and private entities that have been, and may continue to be, negatively impacted by the changing landscape in the global economy. While outside of the U.S. federal government, no one client accounted for over 10% of our revenue for fiscal 2018, we face collection risk as a normal part of our business where we perform services and subsequently bill our clients for such services, or when we make equity investments in majority or minority controlled large-scale client projects and other long-term capital projects before the project completes operational status or completes its project financing. In the event that we have concentrated credit risk from clients in a specific geographic area or industry, continuing negative trends or a worsening in the financial condition of that specific geographic area or industry could make us susceptible to disproportionately high levels of default by those clients. Such defaults could materially adversely impact our revenues and our results of operations.

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

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

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

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

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

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

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

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

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

At December 31, 2018, our contracted backlog was approximately $20.7 billion, our awarded backlog was approximately $36.1 billion and our unconsolidated joint venture backlog was approximately $2.7 billion for a total backlog of $59.5 billion. Our contracted backlog includes revenue we expect to record in the future from signed contracts and, in the case of a public sector client, where the project has been funded. We reported transaction price allocated to remaining unsatisfied performance obligations (RUPO) of $20.1 billion, as described in Note 4, Revenue Recognition, in the notes to our consolidated financial statements. The most significant difference between our contracted backlog and RUPO is revenue related to service contracts that extend beyond the termination provisions of those contracts. Our contracted backlog includes revenues for service contracts expected to be earned over the term of that contract. Guidance for the calculation of RUPO requires us to assume the contract will be terminated at its earliest convenience, resulting in RUPO to be $0.6 billion lower than contracted backlog. Our awarded backlog includes revenue we expect to record in the future where we have been awarded the work, but the contractual agreement has not yet been signed. We cannot guarantee that future revenue will be realized from either category of backlog or, if realized, will result in profits. Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time, projects are delayed, scaled back or canceled. These types of backlog reductions adversely affect the revenue and profits that we ultimately receive from contracts reflected in our backlog.

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

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

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

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

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

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

The reports and other work product we produce for clients sometimes include projections, forecasts and other forward-looking statements. Such information by its nature is subject to numerous risks and uncertainties, any of which could cause the information produced by us to ultimately prove inaccurate. While we include appropriate disclaimers in the reports that we prepare for our clients, once we produce such written work product, we do not always have the ability to control the manner in which our clients use such information. As a result, if our clients reproduce such information to solicit funds from investors for projects without appropriate disclaimers and the information proves to be incorrect, or if our clients reproduce such information for potential investors in a misleading or incomplete manner, our clients or such investors may threaten to or file suit against us for, among other things, securities law violations. For example, in August 2016, AECOM Australia and other parties entered into a settlement related to, among other things, alleged deficiencies in AECOM Australia s traffic forecast. If we were found to be liable for any claims related to our client work product, our business could be adversely affected.

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

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

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

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

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

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

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

- ability of our Board of Directors to authorize the issuance of preferred stock in series without stockholder approval;

- vesting of exclusive authority in our Board of Directors to determine the size of the board (subject to limited exceptions) and to fill vacancies;

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- 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.

Changes in tax laws could increase our worldwide tax rate and materially affect our results of operations.

Many international legislative and regulatory bodies have proposed and/or enacted legislation and begun investigations of the tax practices of multinational companies and, in the European Union (EU), the tax policies of EU member states. Since 2013, the European Commission (EC) has been investigating tax rulings granted by tax authorities in a number of EU member states with respect to specific multinational corporations to determine whether such rulings comply with EU rules on state aid, as well as more recent investigations of the tax regimes of EU member states. If the EC determines that a tax ruling or tax regime violates the state aid restrictions, the tax authorities of the affected EU member state may be required to collect back taxes for the period of time covered by the ruling. Due to the large scale of our U.S. and international business activities, many of these proposed and enacted changes to the taxation of our activities could increase our worldwide effective tax rate and harm results of operations. Tax changes including limitations on the ability to defer U.S. taxation on earnings outside of the U.S. could increase our worldwide effective tax rate and harm results of operations.

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

Stock Repurchase Program

On September 21, 2017, the Company s Board of Directors announced a new capital allocation policy that authorized the repurchase of up to $1.0 billion in AECOM common stock. Stock repurchases can be made through open market purchases or other methods, including pursuant to a Rule 10b5-1 plan. A summary of the repurchase activity for the three months ended December 31, 2018 is as follows:

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs**
October 1 31, 2018	659,654	$ 32.34	659,654	$ 850,000,000
November 1 30, 2018	938,722	31.96	938,722	820,000,000
December 1 31, 2018				
Total	1,598,376	$ 32.10	1,598,376	$ 820,000,000

Item 4. Mine Safety Disclosure

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

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Item 6. Exhibits

The following documents are filed as Exhibits to the Report:

		Incorporated by Reference (Exchange Act Filings Located at File No. 0-52423)			
Exhibit Numbers	**Description**	**Form**	**Exhibit**	**Filing Date**	**Filed Herewith**
3.1	Amended and Restated Certificate of Incorporation	Form 10-K	3.1	11/21/2011	
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation	Form S-4	3.2	8/1/2014	
3.3	Certificate of Correction of Amended and Restated Certificate of Incorporation	Form 10-K	3.3	11/17/2014	
3.4	Certificate of Amendment to the Certificate of Incorporation	Form 8-K	3.1	1/9/2015	
3.5	Certificate of Amendment to the Certificate of Incorporation	Form 8-K	3.1	3/3/2017	
3.6	Amended and Restated Bylaws of the Company	Form 8-K	3.2	11/15/2018	
10.1#	Form Standard Terms and Conditions for Performance Earnings Program under the 2016 Stock Incentive Plan (Fiscal Year 2019)				X
31.1	Certification of the Company s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Company s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32*	Certification of the Company s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
95	Mine Safety Disclosure				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X

101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X

Management contract or compensatory plan or arrangement.

*Document has been furnished and not filed.

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SIGNATURES

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

	AECOM	
Date: February 5, 2019	By:	/S/ W. TROY RUDD W. Troy Rudd *Executive Vice President and Chief Financial Officer*