



FORM 10-K

URS CORP /NEW/ – URS

Filed: February 27, 2007 (period: December 29, 2006)

Annual report which provides a comprehensive overview of the company for the past year

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[incorporates information by reference from the registrant's definitive proxy statement for](#)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2006

OR

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

For the Transition Period from _____ to _____

Commission file number 1-7567



URS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

94-1381538

(I.R.S. Employer Identification No.)

600 Montgomery Street, 26th Floor

San Francisco, California

(Address of principal executive offices)

94111-2728

(Zip Code)

(415) 774-2700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on
which registered:

Common Shares, par value \$.01 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒ Accelerated filer ☐ Non-Accelerated filer ☐

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

The aggregate market value of the common stock of the registrant held by non-affiliates on February 19, 2007 and June 30, 2006 (the last business day of the registrant's most recently completed second fiscal quarter) was \$2,277.9 million and \$2,147.9 million, respectively, based upon the closing sales price of the registrant's common stock on such date as reported in the consolidated transaction reporting system. On February 19, 2007, and June 30, 2006, there were 52,504,697 shares and 51,872,502 shares of the registrant's common stock outstanding, respectively.

Documents Incorporated by Reference

Part III incorporates information by reference from the registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2007.

URS CORPORATION AND SUBSIDIARIES

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “will,” and similar terms used in reference to our future revenue, service and business trends; future accounting policies and actuarial estimates; future stock-based compensation expenses; future retirement plan expenses; future legal proceedings and accruals; future insurance coverage; future guarantees and debt service; future capital resources; future effectiveness of our disclosure and internal controls over financial reporting and future economic and industry conditions. We believe that our expectations are reasonable and are based on reasonable assumptions. However, such forward-looking statements by their nature involve risks and uncertainties. We caution that a variety of factors, including but not limited to the following, could cause our business and financial results to differ materially from those expressed or implied in our forward-looking statements: an economic downturn; changes in our book of business; our compliance with government contract procurement regulations; our ability to procure government contracts; our reliance on government appropriations; the ability of the government to unilaterally terminate our contracts; our ability to make accurate estimates and control costs; our and our partners' ability to bid on, win, perform and renew contracts and projects; environmental issues and liabilities; liabilities for pending and future litigation; the impact of changes in laws and regulations; a decline in defense spending; industry competition; our ability to attract and retain key individuals; employee, agent or partner misconduct; risks associated with changes in equity-based compensation requirements; our leveraged position and ability to service our debt; risks associated with international operations; business activities in high security risk countries; third party software risks; terrorist and natural disaster risks; our relationships with our labor unions; our ability to protect our intellectual property rights; anti-takeover risks and other factors discussed more fully in Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 28, Risk Factors beginning on page 14, as well as in other reports subsequently filed from time to time with the United States Securities and Exchange Commission. We assume no obligation to revise or update any forward-looking statements.

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ITEM 1. BUSINESS

Summary

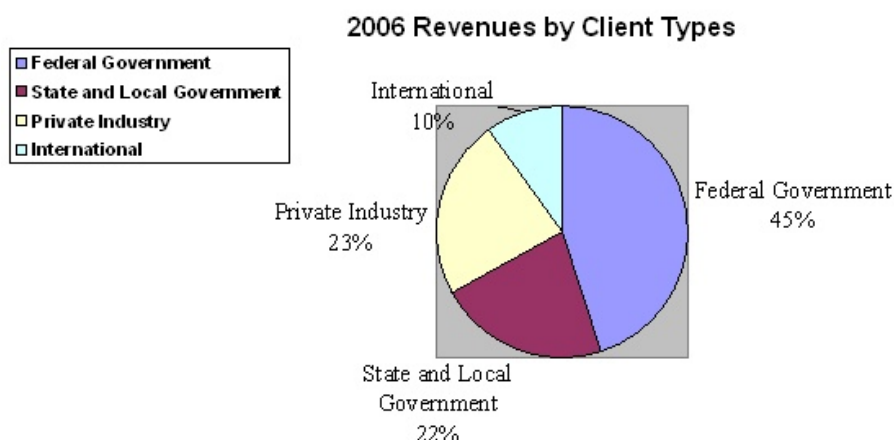
We are one of the largest engineering design services firms worldwide and a major U.S. federal government contractor for systems engineering and technical assistance and operations and maintenance services. Our business focuses primarily on providing fee-based professional and technical services in the engineering and construction services and defense markets, although we perform some limited construction work. We operate through two divisions: the URS Division and the EG&G Division. Our URS Division provides a comprehensive range of professional planning and design, program management, construction management, and operations and maintenance services to various government agencies and departments in the United States and internationally, as well as to private industry clients. Our EG&G Division provides planning, systems engineering and technical assistance, operations and maintenance, and program management services to various U.S. federal government agencies, primarily the Departments of Defense and Homeland Security. For information on our business by segment and geographic regions, please refer to Note 7, "Segment and Related Information" to our "Consolidated Financial Statements and Supplementary Data," which is included under Item 8 of this report.

Clients, Services and Markets

We market our services to federal government agencies, state and local government agencies, private industry, and international clients through our extensive network of approximately 370 offices and contract-specific job sites across the U.S. and in more than 20 foreign countries.

We focus our expertise on eight key markets: transportation, environmental, facilities, industrial infrastructure and process, water/wastewater, homeland security, defense systems, and installations and logistics.

The following table summarizes our revenues, representative services and representative markets by client type for our fiscal year ended December 29, 2006.



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Client Types	% of Revenues	Representative Services	Representative Markets
Federal Government	45%	<ul style="list-style-type: none"> • Operations and Maintenance • Systems Engineering and Technical Assistance • Planning and Design • Program Management • Construction Management 	<ul style="list-style-type: none"> • Facilities • Environmental • Homeland Security • Defense Systems • Installations and Logistics • Transportation
State and Local Government	22%	<ul style="list-style-type: none"> • Planning and Design • Program Management • Construction Management • Operations and Maintenance 	<ul style="list-style-type: none"> • Transportation • Facilities • Homeland Security • Environmental • Water/Wastewater
Private Industry	23%	<ul style="list-style-type: none"> • Planning and Design • Program Management • Construction Management • Operations and Maintenance 	<ul style="list-style-type: none"> • Environmental • Industrial Infrastructure and Process • Facilities • Water/Wastewater
International	10%	<ul style="list-style-type: none"> • Planning and Design • Program Management • Construction Management • Operations and Maintenance 	<ul style="list-style-type: none"> • Transportation • Facilities • Environmental • Water/Wastewater • Homeland Security • Defense Systems

Clients

We provide our services to a broad range of domestic and international clients, including agencies of the U.S. federal government, state and local government agencies and private industry clients located both in the U.S. and abroad. The following table summarizes the primary client types serviced by our URS and EG&G Divisions for the fiscal year ended December 29, 2006.

Client Types	URS Division	EG&G Division
Federal Government	✓	ü
State and Local Government	✓	—
Private Industry	✓	—
International	✓	—

- ✓ a primary client type for the division.
 — not a primary client type for the division.

U.S. Federal Government. We are a major government contractor for planning and design, systems engineering and technical assistance, operations and maintenance services, program management, and construction management, providing services to the Departments of Defense, Homeland Security, Justice, Energy and Treasury, the Environmental Protection Agency, NASA, the United States Postal Service and the General Services Administration. Following a steady decline in uniformed and civilian personnel levels throughout the 1990s, the Department of Defense (“DOD”) has used contractors for large, multi-service government outsourcing contracts in support of military operations. Our revenues from U.S. federal government agencies exclude revenues arising from federal grants or matching funds allocated to and passed through state and local government agencies. We serve U.S. federal government clients through both our URS and EG&G Divisions.

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State and Local Government. Our state and local government agency clients include various local municipalities, community planning boards, state and municipal departments of transportation and public works, transit authorities, water and wastewater authorities, environmental protection agencies, school boards and authorities, judiciary agencies, public hospitals, ports and harbors, and airport authorities. In the United States, substantially all spending for infrastructure – transportation facilities, public buildings and water/wastewater systems – is coordinated through these agencies. Our state and local government revenues include those originating from federal grants or matching funds provided to state and local government agencies. Our state and local government clients are primarily served by the URS Division.

Private Industry. Most of our private industry clients are Fortune 500 companies, many with international operations, from a broad range of industries, including chemical, pharmaceutical, oil and gas, power, manufacturing, mining and pipelines. Over the past several years, many of these companies have reduced the number of service providers they use, selecting larger, multi-service contractors with international operations in order to control overhead costs. Our private industry clients are served primarily through the URS Division.

International. The focus of our international business is to provide a range of services to our multinational private industry clients and foreign governmental agencies in the Americas (outside the U.S.), Europe and Asia Pacific. Although both the URS and EG&G Divisions work outside of the United States, our international client base is served primarily by the URS Division.

Services

We provide professional planning and design, systems engineering and technical assistance, program management, construction management, and operations and maintenance services to the U.S. federal, state, and local government agencies, as well as private industry and international clients. These services are delivered through a network of offices and contract-specific job sites. Although we are typically the prime contractor, in some cases, we provide services as a subcontractor or through joint ventures or partnership agreements with other service providers. The following table summarizes the services provided by our URS and EG&G Divisions for the fiscal year ended December 29, 2006.

Services	URS Division	EG&G Division
Planning and Design	ü	ü
Systems Engineering and Technical Assistance	---	ü
Construction Management	ü	---
Program Management	ü	ü
Operations and Maintenance	ü	ü

- ✓ the division provides the listed service.
--- the division does not provide the listed service.

Planning and Design. The planning process is typically used to develop a blueprint or overall scheme for a project. Based on the project requirements identified during the planning process, detailed plans are developed, which may include material specifications, construction cost estimates and schedules. Our planning and design services include the following:

- master planning;
- land-use planning;
- transportation planning;
- technical and economic feasibility studies;
- environmental impact assessments;
- permitting, to ensure compliance with applicable regulations;
- the analysis of alternative designs; and

- the development of conceptual and final design documents.

We provide planning and design services for the construction of new transportation projects and for the renovation and expansion of existing transportation infrastructure, including bridges, highways, roads, airports, mass transit systems and railroads, and ports and harbors. We also plan and design many types of facilities, such as schools, courthouses, hospitals, corporate offices and retail outlets, as well as water supply and conveyance systems and wastewater treatment plants. Our planning and design capabilities support homeland defense and global threat reduction programs; hazardous waste clean-up activities at military bases; and environmental assessment, due diligence and permitting at commercial and industrial facilities. We also provide design support to military clients for major research and development projects.

Systems Engineering and Technical Assistance. We provide a broad range of systems engineering and technical assistance to all branches of the U.S. military for the design and development of new weapons systems and the modernization of aging weapons systems. We have the expertise to support a wide range of platforms including aircraft and helicopters, tracked and wheeled vehicles, ships and submarines, shelters and ground support equipment. Representative systems engineering and technical assistance services include:

- defining operational requirements and developing specifications for new weapons systems;
- reviewing hardware and software design data; and
- developing engineering documentation for these systems.

We support a number of activities including technology insertion, system modification, installation of new systems/equipment, design of critical data packages, and configuration management.

Construction Management. We serve as the client's representative and monitor the progress, cost and quality of construction projects in process. As construction managers, we typically oversee and coordinate the activities of construction contractors, providing a variety of services, including:

- cost and schedule management;
- change management;
- document control;
- contract administration;
- inspection;
- quality control and quality assurance; and
- claims and dispute resolution.

We provide construction management services for transportation, facilities, environmental and water/wastewater projects.

Program Management. We provide the technical and administrative services required to manage, coordinate and integrate the multiple and concurrent assignments that comprise a large program – from concept through completion. For large military programs, which typically involve naval, ground, vessel and airborne platforms, our program management services include logistics planning, acquisition management, risk management of weapons systems, safety management and subcontractor management. We also provide program management services for large capital improvement programs, which include planning, coordination, schedule and cost control, and design, construction, and commissioning oversight.

Operations and Maintenance. We provide operations and maintenance services in support of large military and other non-military installations and operations. Our services include:

- management of military base logistics, including overseeing the operation of government warehousing and distribution centers, as well as government property and asset management;
- maintenance, modification, overhaul and life service extension services for military vehicles, vessels and aircraft;
- operation and maintenance of chemical agent disposal systems;
- comprehensive military flight training services; and
- support of high security systems.

Markets

We focus our expertise on eight key markets: transportation, environmental, industrial infrastructure and process, facilities, water/wastewater, homeland security, installations and logistics and defense systems. Our domestic and international network of offices allows us to perform business development and sales activities on a localized basis. In addition, for large-scale projects and multinational clients, we coordinate national and international marketing efforts on a company-wide basis. The following table summarizes the markets served by our URS and EG&G Divisions, as separate reporting segments, for our fiscal year ended December 29, 2006.

Markets	URS Division	EG&G Division
Transportation	✓	---
Environmental	✓	---
Industrial Infrastructure and Process	✓	---
Facilities	✓	---
Water/Wastewater	✓	---
Homeland Security	✓	✓
Installations and Logistics	✓	✓
Defense Systems	---	✓

✓ the division serves this market.
 --- the division does not serve this market.

Transportation

We provide a full range of planning and design, program management and construction management services for surface transportation, air transportation, rail transportation, and ports and harbors projects as described below.

Surface Transportation. We provide services for all types of surface transportation systems and networks, including highways, bridges, tunnels and interchanges and toll road facilities. Our expertise also includes the planning and design, and operations and maintenance of intelligent transportation systems, such as traffic management centers. Historically, we have emphasized the design of new transportation systems, but in recent years, we also have focused on the rehabilitation and expansion of existing systems.

Air Transportation. We provide comprehensive services for the development of new airports and the modernization and expansion of existing facilities, including airport terminals; hangars and air cargo buildings; air traffic control towers; runways and taxiways; and related airport infrastructure such as roadways, parking garages and people movers. We also specialize in baggage, communications and aircraft fueling systems. We have completed projects at both general aviation and large-hub international airports throughout the world. In the growing area of airport security, we assist airport authorities and owners, and airline carriers in all aspects of security-related projects. For example, we provide a full range of planning and design, program management, construction management, and operations and maintenance services for airport security systems, including baggage screening and perimeter access control systems.

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Rail Transportation. We provide services to freight and passenger railroads and urban mass transit agencies. We have planned, designed and managed the construction of commuter rail systems, freight rail systems, heavy and light rail transit systems, and high-speed rail systems. Our specialized expertise in transportation structures, including terminals, stations, parking facilities, bridges, tunnels and power, signals and communications systems, complements these capabilities.

Ports and Harbors. We provide comprehensive services to waterfront property ownerships, ports and harbors authorities, port tenants, waterfront cities and counties, construction contractors and the DOD for the planning, design and construction management of container terminals, liquid and dry bulk terminals, storage facilities, piers, wharves, seawalls and slope protection, recreational marinas and small craft harbors. We also provide environmental and geotechnical services for waterfront projects, as well as specialized services in port security and Tsunami modeling.

Environmental

We provide a variety of engineering and environmental services related to protecting, preserving and restoring our air, water and soil quality for U.S. federal government, state and local government agencies, and commercial and industrial clients in the private sector. Our services include environmental impact assessments, permitting and regulatory compliance, environmental management and pollution control, waste management, remediation design, program management, construction management, demolition and environmental clean-up. We provide air quality monitoring and modeling, and design air emissions control systems. We also provide comprehensive services related to the identification, characterization and remediation of hazardous waste sites.

Industrial Infrastructure and Process

We provide planning and engineering design services for new industrial infrastructure and process facilities, as well as the expansion and upgrade of existing facilities. We provide services to clients in the oil and gas, power, chemical/pharmaceutical, manufacturing, pipeline and mining sectors. Our work in the oil and gas and pipeline sectors involves refineries, gas processing facilities, gas and liquid pipelines and gas storage facilities. In the chemical/pharmaceutical market, we provide services for petrochemical, specialty chemical and polymer facilities. Our work for the manufacturing sector involves pulp and paper, food and light manufacturing facilities. We also provide infrastructure design services for mining facilities.

Facilities

We provide planning, architectural and engineering design, program management, construction management for new facilities and the rehabilitation and expansion of existing facilities. Our work involves a broad range of building types, including education, judicial, correctional, health care, retail, sports, recreational, industrial, research and office facilities. We also provide historic preservation, adaptive reuse and seismic upgrade services.

Water/Wastewater

We provide services for the planning, design and construction of all types of water/wastewater treatment facilities and systems. Services are provided for new and expanded water supply, storage, distribution and treatment systems, municipal wastewater treatment and sewer systems, levees, and watershed, storm water management, flood control systems, and coastal restoration. We also provide design and seismic retrofit of earth, rock fill and concrete dams, as well as the design of reservoirs and impoundments.

Homeland Security

We provide a variety of services to the Department of Homeland Security (“DHS”), DOD, and other federal departments and state and local government agencies in support of homeland security activities. This work includes conducting threat assessments of public facilities, planning and conducting emergency preparedness exercises, and designing force protection systems and security systems.

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In addition, our related global threat reduction services focus on the elimination and dismantlement of nuclear, chemical and biological weapons of mass destruction (“WMDs”). Our services include operating and maintaining chemical agent disposal facilities and providing advisory services for dismantling and eliminating WMDs. We also develop emergency response strategies and conduct first responder training for the military and other federal state and local government agencies.

Installations and Logistics

We assist the U.S. federal government by providing services to support the operations of complex government and military installations and the management of logistics activities for government supply and distribution networks.

Installations Management. We provide comprehensive services for the operation and maintenance of complex government installations, including military bases and test ranges. Our services vary from managing basic base operations to the design, installation and maintenance of complex equipment for testing new weapons.

Logistics. We provide a number of DOD agencies and defense prime contractors with turn-key logistics support services focused on developing and managing integrated supply and distribution networks. We oversee warehousing, packaging, delivery, and traffic management for the distribution of government equipment and materials. We also manage depot equipment maintenance, safety, security and contracting.

Defense Systems

We provide a variety of services to the U.S. federal government in support of military activities. These services include Defense Systems & Services, Field Services and Flight Services & Training.

Defense Systems & Services. We provide a variety of weapons system design and modernization services to DOD weapons systems management offices, laboratories, technical centers, support centers, and maintenance activities. Our services include acquisition support for new defense systems, engineering and technical assistance for the modernization of existing systems, and maintenance planning to help extend their service life.

Field Services. We maintain, modify and overhaul aircraft, ground vehicles, such as Humvees, tanks, and armored personnel carriers, and associated support equipment for the U.S. Army, U.S. Air Force, U.S. Navy and U.S. Coast Guard. We provide these services for military operations both in the U.S. and abroad.

Flight Services & Training. We provide a variety of services to the U.S. Army, U.S. Air Force, and U.S. Coast Guard to support undergraduate and graduate-level training for pilots of military fixed wing and rotary wing aircraft. We also assist with the acquisition of military parts for these aircraft.

Major Customer

Our largest client type is the U.S. federal government (45% of our total fiscal 2006 revenues) and our largest customer is the U.S. Army. During 2006, we had multiple contracts with the U.S. Army, which collectively contributed more than 10% of our consolidated revenues, as summarized in the following table, for the years ended December 29, 2006 and December 30, 2005, the two months ended December 31, 2004, and year ended October 31, 2004. However, we are not dependent on any single contract on an ongoing basis, and we believe that the loss of any contract would not have a material adverse effect on our business.

	URS Division	EG&G Division	Total	% of Our Consolidated Revenues
(In millions, except for percentages)				
Year ended December 29, 2006				
The U.S. Army (1)	\$ 107.8	\$ 735.2	\$ 843.0	20%
Year ended December 30, 2005				
The U.S. Army (1)	\$ 109.2	\$ 682.2	\$ 791.4	20%
Two months ended December 31, 2004				
The U.S. Army (1)	\$ 17.1	\$ 91.2	\$ 108.3	19%
Year ended October 31, 2004				
The U.S. Army (1)	\$ 96.0	\$ 490.7	\$ 586.7	17%

(1) The U.S. Army includes U.S. Army Corps of Engineers.

Competition

Our industry is highly fragmented and intensely competitive. Our competitors are numerous, ranging from small private firms to multi-billion dollar companies. The technical and professional aspects of our services generally do not require large upfront capital expenditures and therefore provide limited barriers against new competitors. Some of our competitors have achieved greater market penetration in some of the markets in which we compete and have substantially more financial resources and/or financial flexibility than we do. To our knowledge, no individual company currently dominates any significant portion of our markets. Competition in our industry is based on quality of performance, reputation, expertise, price, technology, customer relationships, range of service offerings, and domestic and international office networks.

We believe that we are well positioned to compete in our markets because of our solid reputation, our long-term client relationships, our extensive network of offices and our broad range of services. We are one of the largest engineering design services firms worldwide and a major U.S. federal government contractor for systems engineering and technical assistance, operations and maintenance, and program management services. We provide a comprehensive portfolio of services ranging from engineering planning and design to operations and maintenance. In addition, as a result of our national and international network of approximately 370 offices and contract-specific job sites, we can offer our governmental and private clients localized knowledge and expertise that is backed by the support of our worldwide professional staff.

The competitive environments in which each business segment operates are described below:

URS Division. The URS Division's business segment is highly competitive and characterized by competition primarily based on performance, reputation, expertise, price, technology, customer relationships, range of service offerings, and domestic and international office networks. Our competitors are numerous, ranging from small private firms to multi-billion dollar companies. The primary competitors of our URS Division include AECOM Technology Corporation, CH2M HILL Companies, Ltd., Earth Tech Inc. (a subsidiary of Tyco International, Ltd.), Fluor Corporation, Jacobs Engineering Group Inc., Parsons Brinckerhoff Inc., the Shaw Group, Inc., Tetra Tech, Inc. and Washington Group International, Inc. The URS Division's contract mix is weighted more towards providing professional engineering and operations and maintenance services via cost-plus, time-and-materials and negotiated fixed-price contracts, which are generally lower risk than lump-sum, low-bid fixed-price contracts and, our portfolio is comprised of a larger number of generally smaller contracts.

EG&G Division. The EG&G Division's business segment is highly competitive and characterized by competition primarily based on quality of performance, reputation, expertise, price, technology, customer relationships and range of service offerings. Our competitors are numerous, ranging from small private firms to multi-billion dollar companies. The primary competitors of our EG&G Division include DynCorp International LLC, General Dynamics Corporation, KBR, L-3 Communications Corporation, Raytheon Corporation, and Science Application International Corporation (SAIC).

Backlog, Designations, Option Years and Indefinite Delivery Contracts

We determine the value of all contract awards that may potentially be recognized as revenues over the life of the contracts. We categorize the value of our book of business into backlog, designations, option years and indefinite delivery contracts, or "IDCs," based on the nature of the award and its current status. As of December 29, 2006 and December 30, 2005, our total book of business was \$12.4 billion and \$11.5 billion, respectively. A discussion and breakdown of our book of business are included below.

Backlog. Our contract backlog consists of the amount billable at a particular point in time for future services under signed contracts, including task orders that are actually issued and funded under IDCs. Our consolidated contract backlog was \$4,637.2 million and \$3,837.7 million at December 29, 2006 and December 30, 2005, respectively.

Designations. Our clients often designate us as the recipient of future contracts. These "designations" are projects that clients have awarded to us, but for which we do not yet have signed contracts. As of December 29, 2006 and December 30, 2005, the estimated value of our consolidated designations was \$1,580.4 million and \$1,476.2 million, respectively.

Option Years. A significant portion of the EG&G Division's contracts are multi-year contracts with a base period, plus option years. The base periods of these contracts can vary from one to five years. The option years are exercised at the option of our clients without requiring us to go through an additional competitive bidding process and would only be canceled through a termination for default or if a client decides to end the project (a termination for convenience). As of December 29, 2006 and December 30, 2005, the estimated value of the option years on our contracts was \$1,010.0 million and \$1,092.2 million, respectively.

Indefinite Delivery Contracts. Indefinite delivery contracts are signed contracts under which we perform work only when the client issues specific task orders. Generally, the terms of these contracts exceed one year and often include a maximum term and potential value. IDCs generally range from one to twenty years in length. When such task orders are signed and funded, we transfer their value into backlog. As of December 29, 2006 and December 30, 2005, the estimated remaining value of our consolidated IDCs was \$5,177.7 million and \$5,064.7 million, respectively.

While the value of our book of business is a predictor of future revenues, we have no assurance, nor can we provide assurance that we will ultimately realize the maximum potential values for backlog, designations, option years or IDCs. Based on our historical experience, our backlog has the highest likelihood of being converted into revenues because it is based upon signed and executable contracts with our clients. Although there is a high probability that our designations will eventually convert into revenues, they are not as certain as backlog because our clients have not yet signed a contract with us. Due to the nature of option years, which are exercisable at the option of our clients, the likelihood of their conversion into revenues is lower than that of backlog, but higher than that of designations because we have a signed contract with the client and do not need to go through a competitive bidding process to obtain the option on the contract. Because we do not perform work under IDCs until specific task orders are issued, the value of our IDCs are not as likely to convert into revenues as other categories of our book of business.

Acquisitions

We have historically made strategic acquisitions in order to diversify our client base, increase the range of services we offer and expand the markets we serve. In September 2006, we acquired Cash & Associates, a small civil and structural engineering firm that specializes in the planning and design and program management of ports and harbors projects. The acquisition of Cash & Associates enhances our capabilities in the ports and harbors market, which we expect will experience significant growth over the next 10 years, due to increased maritime trade and the need for additional infrastructure and security.

History

We were originally incorporated in California on May 1, 1957 under the former name of Broadview Research Corporation. On May 18, 1976, we re-incorporated in Delaware. On March 28, 1974, we changed our name to URS Corporation. Since then, we have implemented several name changes as a result of mergers and acquisitions. On February 21, 1990, we changed our name back to URS Corporation.

Regulations

We provide services for contracts that are subject to government oversight, including environmental laws and regulations, general government procurement laws and regulations, and other government regulations and requirements. For more information on risks associated with our government regulations, please refer to Item 1A, "Risk Factors," of this report.

Environmental. A portion of our business involves the planning, design, program management, and construction management and operation and maintenance of pollution control facilities, as well as the assessment, design and management of remediation activities at hazardous waste or Superfund sites and military bases. In addition, we have contracts with U.S. governmental entities to destroy hazardous materials, including chemical agents and weapons stockpiles. These activities may require us to manage, handle, remove, treat, transport and dispose of toxic or hazardous substances.

Some environmental laws including the Resource Conservation and Recovery Act of 1976, as amended, ("RCRA"), and the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, ("CERCLA"), as well as other governmental laws can impose liability for the entire cost of the clean-up of contaminated facilities or sites upon present and former owners and operators as well as generators, transporters and persons arranging for the treatment or disposal of such substances. While we strive to handle hazardous and toxic substances with care and in accordance with safe methods, the possibility of accidents, leaks, spills and the events of force majeure always exist. Humans exposed to these materials, including workers or subcontractors engaged in the transportation and disposal of hazardous materials, and persons in affected areas may be injured or become ill, resulting in lawsuits that expose us to liability and may result in substantial damage awards against us. Liabilities for contamination or human exposure to hazardous or toxic materials or a failure to comply with applicable regulations could result in substantial costs to us, including clean-up costs, fines and civil or criminal sanctions, third party claims for property damage or personal injury, or cessation of remediation activities.

Some of our business operations are covered by Public Law 85-804, which provides for government indemnification against claims and damages arising out of unusually hazardous or nuclear activities performed at the request of the government. Should public policies and laws be changed, however, government indemnification may not be available in the case of any future claims or liabilities relating to hazardous activities that we undertake to perform.

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Government Procurement. The services we provide to the U.S. federal government are subject to the Federal Acquisition Regulation (“FAR”), the Truth in Negotiations Act (“TINA”), the Cost Accounting Standards (“CAS”), the Service Contract Act (“SCA”), DOD security regulations and other rules and regulations applicable to government contracts. These laws and regulations affect how we transact business with our government clients and in some instances, impose added costs to our business operations. A violation of specific laws and regulations could lead to fines, contract termination or suspension of future contracts. Our government clients can also terminate or modify any of their contracts with us at their convenience, and many of our government contracts are subject to renewal or extension annually.

Other regulations and requirements. We provide services to the U.S. DOD and other defense–related entities that often require specialized professional qualifications and security clearances. Our international business is also subject to the Foreign Corrupt Practices Act, as well as various export control, anti–boycott, and embargo laws. In addition, as engineering design services professionals, we are subject to a variety of local, state and foreign licensing and permit requirements.

Sales and Marketing

Our URS Division performs business development and sales activities primarily through our network of local offices around the world. For large, market–specific projects requiring diverse technical capabilities, we utilize the companywide resources of specific disciplines. This often involves coordinating marketing efforts on a regional, national or global level. Our EG&G Division performs business development and sales activities primarily through its management groups, which address specific markets, such as homeland security and defense systems. In addition, our EG&G Division coordinates national marketing efforts on large projects and for multi–division or multi–market scope efforts. Over the past year, the URS Division and the EG&G Division have jointly pursued several federal defense and homeland security projects, and have been successful in marketing EG&G's technical capabilities to URS' established state and local government clients.

Seasonality

We experience seasonal trends in our business in connection with federal holidays, such as Memorial Day, Independence Day, Thanksgiving, Christmas and New Year's Day. Our revenues are typically lower during these times of the year because many of our clients' employees as well as our own employees do not work during these holidays, resulting in fewer billable hours worked on projects and thus lesser revenues recognized. In addition to holidays, our business also is affected by seasonal bad weather conditions that occasionally cause some of our offices to close temporarily.

Raw Materials

As a professional services company, our business is not heavily dependent on raw materials. Risks associated with the procurement of raw materials for our construction services projects are generally passed through to our clients. We do not foresee the lack of availability of raw materials as a factor that could have a material adverse effect on our business in the near term.

Insurance

Our insurance policy includes primary and excess limits totaling \$125.0 million per loss and \$125.0 million in the aggregate for general liability, professional errors and omissions liability and contractor's pollution liability insurance (in addition to other policies for some specific projects). The general liability policy includes a self–insured claim retention of \$4.0 million (or \$10.0 million in some circumstances). The professional errors and omissions liability and contractor's pollution liability insurance policies each include a self–insured claim retention amount of \$10.0 million each. Parties may seek damages that substantially exceed our insurance coverage.

Excess insurance policies above our primary policy limits provide for coverages on a “claims made” basis, covering only claims actually made and reported during the policy period currently in effect. Thus, if we do not continue to maintain these policies, we will have no coverage for claims made after the termination date, even for claims based on events that occurred during the term of coverage. While we intend to maintain these policies, we may be unable to maintain existing coverage levels. We have maintained insurance without lapse for many years with limits in excess of losses sustained.

Employees

As of January 31, 2007, we had approximately 26,000 full-time employees and 3,300 temporary or part-time workers. The URS Division and the EG&G Division employed approximately 17,000 and 12,300 persons (including temporary and part-time workers), respectively. At various times, we have employed up to several thousand workers on a temporary or part-time basis to meet our contractual obligations. Approximately 2,300 of our employees are covered by collective bargaining agreements. These agreements are subject to amendment on various dates ranging from March 2007 to July 2010.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our web site at www.urscorp.com. These reports, and any amendments to these reports, are made available on our web site as soon as reasonably practicable after we electronically file or furnish the reports with the Securities and Exchange Commission (“SEC”). You may read and copy any materials filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a web site (www.sec.gov) containing reports, proxy, and other information that we filed with the SEC. In addition, our Corporate Governance Guidelines, the charters for our Audit, Board Affairs and Compensation Committees, and our Code of Business Conduct and Ethics are available on our web site at www.urscorp.com under the “Corporate Governance” section. Any waivers or amendments to our Code of Business Conduct and Ethics will be posted on our web site. A printed copy of this information is also available without charge by sending a written request to: Corporate Secretary, URS Corporation, 600 Montgomery Street, 26th Floor, San Francisco, CA 94111-2728.

ITEM 1A. RISK FACTORS

In addition to the other information included or incorporated by reference in this Form 10-K, the following risk factors could affect our financial condition and results of operations and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 28 and the consolidated financial statements and related notes beginning on page 56 .

Demand for our services is cyclical and vulnerable to economic downturns. If the economy weakens, then our revenues, net income and financial condition may deteriorate.

Demand for our services in our infrastructure and defense markets is cyclical and vulnerable to sudden economic downturns, which may result in clients delaying, curtailing or canceling proposed and existing projects. For example, there was a decrease in our URS Division revenues of \$77.9 million, or 3.4%, in fiscal year 2002 compared to fiscal year 2001 as a result of the general economic decline. Our clients may demand better pricing terms and their ability to pay our invoices may be affected by a weakening economy. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects. Our business traditionally lags the overall recovery in the economy; therefore, our business may not recover immediately when the economy improves. If the economy weakens, then our revenues, net income and overall financial condition may deteriorate.

We may not realize the full amount of revenues reflected in our book of business, which could harm our operations and significantly reduce our future revenues.

We account for all contract awards that may eventually be recognized as revenues as our “book of business,” which includes backlog, designations, option years and IDCs. Our backlog consists of the amount billable at a particular point in time, including task orders issued under IDCs. As of December 29, 2006, our backlog was approximately \$4.6 billion. Our designations consist of projects that clients have awarded us, but for which we do not yet have signed contracts. Our option year contracts are multi-year contracts with base periods, plus option years that are exercisable by our clients without the need for us to go through another competitive bidding process. Our IDCs are signed contracts under which we perform work only when our clients issue specific task orders. Our book of business estimates may not result in actual revenues in any particular period because clients may modify or terminate projects and contracts and may decide not to exercise contract options or issue task orders. If we do not realize a substantial amount of our book of business, our operations could be harmed and our future revenues could be significantly reduced.

As a government contractor, we are subject to a number of procurement laws, regulations and government audits; a violation of any such laws and regulations could result in sanctions, contract termination, forfeiture of profit, harm to our reputation or loss of our status as an eligible government contractor.

We must comply with and are affected by federal, state, local and foreign laws and regulations relating to the formation, administration and performance of government contracts. For example, we must comply with the FAR, the TINA, the CAS, the SCA and the DOD security regulations, as well as many other laws and regulations. These laws and regulations affect how we transact business with our clients and in some instances, impose additional costs on our business operations. Even though we take precautions to prevent and deter fraud, misconduct and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud or other improper activities. Government agencies, such as the U.S. Defense Contract Audit Agency (“DCAA”), routinely audit and investigate government contractors. These government agencies review and audit a government contractor's performance under its contracts and cost structure, and compliance with applicable laws, regulations and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs, and if the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for the FAR or CAS, the DCAA auditor may recommend to our U.S. government corporate administrative contracting officer to disallow such costs. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. Government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation.

Because we depend on federal, state and local governments for a significant portion of our revenue, our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

Revenues from federal government contracts and state and local government contracts represented approximately 45% and 22%, respectively, of our total revenues for the year ended December 29, 2006. Government contracts are awarded through a regulated procurement process. The federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as IDCs, that generally require those contractors who have previously been awarded the IDC to engage in an additional competitive bidding process before a task order is issued. The increased competition, in turn, may require us to make sustained efforts to reduce costs in order to realize revenues and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

Each year some government contracts may be dependent on the legislative appropriations process. If legislative appropriations are not made in subsequent years of a multiple-year government contract, then we may not realize all of our potential revenues and profits from that contract.

Each year the funding for some of our government contracts may be dependent on the legislative appropriations process. For example, the passage of the SAFETEA-LU highway and transit bill in August of 2005 has provided additional funding for state transportation projects in which we provide services. Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. As a result, at the beginning of a project, the related contract may only be partially funded, and additional funding is committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, rise in raw material costs, delays associated with a lack of a sufficient number of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures. If appropriations are not made in subsequent years of a multiple-year contract, we may not realize all of our potential revenues and profits from that contract.

Our government contracts may give the government the right to modify, delay, curtail or terminate our contracts at their convenience at any time prior to their completion and, if we do not replace these contracts, then we may suffer a decline in revenues.

Government projects in which we participate as a contractor or subcontractor may extend for several years. Generally, government contracts include the right for the government to modify, delay, curtail or terminate contracts and subcontracts at their convenience any time prior to their completion. Any decision by a government client to modify, delay, curtail or terminate our contracts at their convenience may result in a decline in revenues.

If we are unable to accurately estimate and control our contract costs, then we may incur losses on our contracts, which could decrease our operating margins and significantly reduce or eliminate our profits.

It is important for us to control our contract costs so that we can maintain positive operating margins. We generally enter into three principal types of contracts with our clients: cost-plus, fixed-price and time-and-materials. Under cost-plus contracts, which may be subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be reimbursed for all of the costs we incur. Under fixed-price contracts, we receive a fixed price regardless of what our actual costs will be. Consequently, we realize a profit on fixed-price contracts only if we control our costs and prevent cost over-runs on the contracts. Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for other expenses. Profitability on our contracts is driven by billable headcount and our ability to manage costs. Under each type of contract, if we are unable to control costs, we may incur losses on our contracts, which could decrease our operating margins and significantly reduce or eliminate our profits.

Our actual results could differ from the estimates and assumptions that we use to prepare our financial statements, which may significantly reduce or eliminate our profits.

To prepare financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions as of the date of the financial statements, which affect the reported values of assets and liabilities and revenues and expenses and disclosures of contingent assets and liabilities. Areas requiring significant estimates by our management include:

- the application of the “percentage-of-completion” method of accounting, and revenue recognition on contracts, change orders, and contract claims;
 - provisions for uncollectible receivables and customer claims and recoveries of costs from subcontractors, vendors and others;
 - provisions for income taxes and related valuation allowances;

- value of goodwill and recoverability of other intangible assets;
- valuation of assets acquired and liabilities assumed in connection with business combinations;
- valuation of defined benefit pension plans and other employee benefit plans;
- valuation of stock-based compensation expense; and
- accruals for estimated liabilities, including litigation and insurance reserves.

Our actual results could differ from those estimates, which may significantly reduce or eliminate our profits.

Our use of the “percentage-of-completion” method of accounting could result in a reduction or a reversal of previously recorded revenues and profits.

A substantial portion of our revenues and profits are measured and recognized using the “percentage-of-completion” method of accounting, which is discussed in Note 1, “Accounting Policies,” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report. Our use of this accounting method results in recognition of revenues and profits ratably over the life of a contract, based generally on the proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of revisions to revenues and estimated costs are recorded when the amounts are known or can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term engineering, program management, construction management or construction contracts in process, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenues and profits.

If our goodwill or intangible assets become impaired, then our profits may be significantly reduced or eliminated.

Because we have grown through acquisitions, goodwill and other intangible assets represent a substantial portion of our assets. Goodwill and other net purchased intangible assets were \$993.0 million as of December 29, 2006. If any of our goodwill or intangible assets were to become impaired, we would be required to write off the impaired amount, which may significantly reduce or eliminate our profits.

Our failure to successfully bid on new contracts and renew existing contracts with private and public sector clients could adversely reduce or eliminate our profitability.

Our business depends on our ability to successfully bid on new contracts and renew existing contracts with private and public sector clients. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which are affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions arise, or if we fail to secure adequate financial arrangements or the required governmental approval, we may not be able to pursue particular projects, which could adversely reduce or eliminate our profitability.

If we fail to timely complete, miss a required performance standard or otherwise fail to adequately perform on a project, then we may incur a loss on that project, which may reduce or eliminate our overall profitability.

We may commit to a client that we will complete a project by a scheduled date. We may also commit that a project, when completed, will achieve specified performance standards. If the project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. The uncertainty of the timing of a project can present difficulties in planning the amount of personnel needed for the project. If the project is delayed or canceled, we may bear the cost of an underutilized workforce that was dedicated to fulfilling the project. In addition, performance of projects can be affected by a number of factors beyond our control, including unavoidable delays from weather conditions, unavailability of vendor materials, changes in the project scope of services requested by clients or labor disruptions. In some cases, should we fail to meet required performance standards, we may also be subject to agreed-upon financial damages, which are determined by the contract. To the extent that these events occur, the total costs of the project could exceed our estimates and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability.

If our partners fail to perform their contractual obligations on a project, we could be exposed to liability, loss of reputation or reduced or eliminated profits.

We sometimes enter into subcontracts, joint ventures and other contractual arrangements with outside partners to jointly bid on and execute a particular project. The success of these joint projects depends upon, among other things, the satisfactory performance of the contractual obligations of our partners. If any of our partners fails to satisfactorily perform its contractual obligations, we may be required to make additional expenditures and provide additional services to complete the project. If we are unable to adequately address our partner's performance issues, then our client could terminate the joint project, exposing us to liability, loss of reputation or reduced or eliminated profits.

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

A portion of our environmental business involves the planning, design, program management, construction management and operation and maintenance of pollution control facilities, hazardous waste or Superfund sites and military bases. In addition, we have contracts with U.S. governmental entities to destroy hazardous materials, including chemical agents and weapons stockpiles. These activities may require us to manage, handle, remove, treat, transport and dispose of toxic or hazardous substances. We must comply with a number of governmental laws that strictly regulate the handling, removal, treatment, transportation and disposal of toxic and hazardous substances. Under the CERCLA and comparable state laws, we may be required to investigate and remediate regulated hazardous materials. CERCLA and comparable state laws typically impose strict, joint and several liabilities without regard to whether a company knew of or caused the release of hazardous substances. The liability for the entire cost of clean up can be imposed upon any responsible party. Other principal federal environmental, health and safety laws affecting us include, but are not limited to, the RCRA, the National Environmental Policy Act, the Clean Air Act, the Clean Air Interstate Rule, the Clean Air Mercury Rule, the Occupational Safety and Health Act, the Toxic Substances Control Act and the Superfund Amendments and Reauthorization Act. Our business operations may also be subject to similar state and international laws relating to environmental protection. 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 clean-up 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; however, we are currently not subject to any material claims under environmental laws and regulations.

Our liability for damages due to legal proceedings may adversely affect us and result in a significant loss.

In performing our services, we may be exposed to legal proceedings in connection with cost overruns, personal injury claims, property damage, labor shortages or disputes, weather problems and unforeseen engineering, architectural, environmental and geological problems. In some actions, parties may seek damages that exceed our insurance coverage. Currently, we have limits of \$125.0 million per loss and \$125.0 million in the aggregate for general liability, professional errors and omissions liability and contractor's pollution liability insurance (in addition to other policies for some specific projects). The general liability policy includes a self-insured claim retention of \$4.0 million (or \$10.0 million in some circumstances). The professional errors and omissions liability and contractor's pollution liability insurance policies include a self-insured claim retention amount of \$10.0 million each. Our services may require us to make judgments and recommendations about environmental, structural, geotechnical and other physical conditions at project sites. If our performance, judgments and recommendations are later found to be incomplete or incorrect, then we may be liable for the resulting damages. Various legal proceedings are pending against us in connection with the performance of our professional services and other actions by us. Although the outcome of our legal proceedings cannot be predicted with certainty and no assurance can be provided as to a favorable outcome, based on our previous experience in these matters, we do not believe that any of our legal proceedings, individually or collectively, are likely to exceed established loss accruals or our various professional errors and omissions, project-specific and other insurance policies. However, the resolution of outstanding claims is subject to inherent uncertainty and it is reasonably possible that any resolution could have an adverse effect on us. If we sustain damages that exceed our insurance coverage or for which we are not insured, our results of operations and financial condition could be harmed.

Changes in environmental laws, regulations and programs could reduce demand for our environmental services, which could in turn negatively impact our revenues.

Our environmental services business is driven by federal, state, local and foreign laws, regulations and programs related to pollution and environmental protection. For example, passage of the Clean Air Interstate and Clean Air Mercury environmental rules has increased our emissions control business. On the other hand, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for environmental services, which could in turn negatively impact our revenues.

A decline in U.S. defense spending or a change in budgetary priorities could harm our operations and significantly reduce our future revenues.

Revenues under contracts with the DOD and other defense-related clients represented approximately 36% of our total revenues for the fiscal year ended December 29, 2006. While spending authorization for defense-related programs has increased significantly in recent years due to greater homeland security and foreign military commitments, as well as the trend to outsource federal government jobs to the private sector, these spending levels may not be sustainable. For example, the DOD budget declined in the late 1980s and the early 1990s, resulting in DOD program delays and cancellations. Future levels of expenditures and authorizations for these programs may decrease, remain constant or shift to programs in areas where we do not currently provide services. As a result, a general decline in U.S. defense spending or a change in budgetary priorities could harm our operations and significantly reduce our future revenues.

Our overall market share will decline if we are unable to compete successfully in our industry.

Our industry is highly fragmented and intensely competitive. According to the publication Engineering News-Record, based on information voluntarily reported by 500 design firms, the top ten engineering design firms only accounted for approximately 32% of the total design firm revenues in 2005. Our competitors are numerous, ranging from small private firms to multi-billion dollar companies. In addition, the technical and professional aspects of our services generally do not require large upfront capital expenditures and provide limited barriers against new competitors.

Some of our competitors have achieved greater market penetration in some of the markets in which we compete and have substantially more financial resources and/or financial flexibility than we do. As a result of the number of competitors in the industry, our clients may select one of our competitors on a project due to competitive pricing or a specific skill set. If we are unable to maintain our competitiveness, our market share will decline. These competitive forces could have a material adverse effect on our business, financial condition and results of operations by reducing our relative share in the markets we serve.

Our failure to attract and retain key employees could impair our ability to provide services to our clients and otherwise conduct our business effectively.

As a professional and technical services company, we are labor intensive and therefore, our ability to attract, retain and expand our senior management and our professional and technical staff is an important factor in determining our future success. From time to time, it may be difficult to attract and retain qualified individuals with the expertise and in the timeframe demanded by our clients. For example, some of our government contracts may require us to employ only individuals who have particular government security clearance levels. In addition, we rely heavily upon the expertise and leadership of our senior management. The failure to attract and retain key individuals could impair our ability to provide services to our clients and conduct our business effectively.

Employee, agent, or partner misconduct or our failure to comply with laws or regulations could weaken our ability to win contracts with government clients, which could result in decreasing revenues.

As a federal, state and local government contractor, misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, agents, or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, laws regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, environmental laws and any other applicable laws or regulations. For example, we regularly provide services that may be highly sensitive or that relate to critical national security matters; if a security breach were to occur, our ability to procure future government contracts could be severely limited. Other examples of potential misconduct include time card fraud and violations of the Anti-Kickback Act. The precautions we take to prevent and detect these activities may not be effective, and we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines and penalties, loss of security clearance and suspension or debarment from contracting, which could weaken our ability to win future contract with government clients.

Recent changes in accounting for equity-related compensation have impacted our financial statements and could negatively impact our ability to attract and retain key employees.

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*," ("SFAS 123(R)") on December 31, 2005. At that time, we evaluated our current stock-based compensation plans and employee stock purchase plans. In order to minimize the volatility of our stock-based compensation expense, we are currently issuing restricted stock awards and units to selected employees rather than granting stock options. We also revised our employee stock purchase plan from a 15% discount on our stock price at the beginning or the end of the six-month offering period, whichever is lower, to a 5% discount on our stock price at the end of the six-month offering period. These changes to our equity-related compensation may negatively impact our ability to attract and retain key employees.

Our indebtedness could limit our ability to finance future operations or engage in other business activities.

As of December 29, 2006, we had \$168.6 million of total outstanding indebtedness and \$61.3 million in letters of credit outstanding against our revolving line of credit. This level of indebtedness could negatively affect us because it may impair our ability to borrow in the future and make us more vulnerable in an economic downturn. Our current credit facility contains customary financial, affirmative and negative covenants for a company with a similar financial position to ours. As of December 29, 2006, we were in compliance with all the covenants of our credit facility.

Because we are a holding company, we may not be able to service our debt if our subsidiaries do not make sufficient distributions to us.

We have no direct operations and no significant assets other than investments in the stock of our subsidiaries. Because we conduct our business operations through our operating subsidiaries, we depend on those entities for payments and dividends to generate the funds necessary to meet our financial obligations. Legal restrictions, including local regulations and contractual obligations associated with secured loans, such as equipment financings, could restrict our subsidiaries' ability to pay dividends or make loans or other distributions to us. The earnings from, or other available assets of, these operating subsidiaries may not be sufficient to make distributions to enable us to pay interest on our debt obligations when due or to pay the principal of such debt at maturity. As of December 29, 2006, our debt service obligations, comprised of principal and interest (excluding capital leases), during the next twelve months will be approximately \$17.0 million. Based on the current outstanding indebtedness of \$114.0 million under our current credit facility, if market rates were to average 1% higher during that same twelve-month period, our net of tax interest expense would increase by approximately \$0.7 million.

Our international operations are subject to a number of risks that could harm our operations and significantly reduce our future revenues.

As a multinational company, we have operations in over 20 countries and we derived 10% of our revenues from international operations for both fiscal years ended December 29, 2006 and December 30, 2005. International business is subject to a variety of risks, including:

- lack of developed legal systems to enforce contractual rights;
 - greater risk of uncollectible accounts and longer collection cycles;
 - currency fluctuations;
 - logistical and communication challenges;
 - potentially adverse changes in laws and regulatory practices, including export license requirements, trade barriers, tariffs and tax laws;
 - changes in labor conditions;
 - exposure to liability under the Foreign Corrupt Practices Act and export control and anti-boycott laws; and
 - general economic and political conditions in foreign markets.

These and other risks associated with international operations could harm our overall operations and significantly reduce our future revenues. In addition, services billed through foreign subsidiaries are attributed to the international category of our business, regardless of where the services are performed and conversely, services billed through domestic operating subsidiaries are attributed to a domestic category of clients, regardless of where the services are performed. As a result, our international risk exposure may be more or less than the percentage of revenues attributed to our international operations.

Our business activities may require our employees to travel to and work in high security risk countries, which may result in employee death or injury, repatriation costs or other unforeseen costs.

As a multinational company, our employees often travel to and work in high security risk countries around the world that are undergoing political, social and economic upheavals resulting in war, civil unrest, criminal activity or acts of terrorism. For example, we have employees working in high security risk countries located in the Middle East and Southwest Asia. As a result, we may be subject to costs related to employee death or injury, repatriation or other unforeseen circumstances.

We rely on third party software to run our critical accounting, project management, and financial information systems, and as a result, any sudden loss, disruption or unexpected costs to maintain such systems could significantly increase our operational expense as well as disrupt the management of our business operations.

We rely on third party software to run our critical accounting, project management and financial information systems. For example, we relied on one software vendor's products to process approximately 63% of our total revenues as of December 29, 2006. We also depend on our third party software vendors to provide long-term software maintenance support for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our accounting, project management and financial information to other systems, thus increasing our operational expense as well as disrupting the management of our business operations.

Force majeure events, including natural disasters and terrorists' actions have negatively impacted and could further negatively impact the economies in which we operate, which may affect our financial condition, results of operations or cash flows.

Force majeure events, including natural disasters, such as Hurricane Katrina that affected the Gulf Coast in August 2005 and terrorist attacks, such as those that occurred in New York and Washington, D.C. on September 11, 2001, could negatively impact the economies in which we operate. For example, Hurricane Katrina caused several of our Gulf Coast offices to close, interrupted a number of active client projects and forced the relocation of our employees in that region from their homes. In addition, during the September 11, 2001 terrorist attacks, several of our offices were shut down due to terrorist attack warnings.

We typically remain obligated to perform our services after a terrorist action or natural disaster unless the contract contains a force majeure clause relieving us of our contractual obligations in such an extraordinary event. If we are not able to react quickly to force majeure, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations or cash flows.

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.

As of December 29, 2006, approximately 8% of our employees were covered by 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 benefits 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.

We have only a limited ability to protect our intellectual property rights, which are important to our success. Our failure to protect our intellectual property rights could adversely affect our competitive position.

Our success depends, in part, upon our ability to protect our proprietary information and other intellectual property. We rely principally on trade secrets to protect much of our intellectual property where we do not believe that patent or copyright protection is appropriate or obtainable. However, trade secrets are 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. In addition, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection would adversely affect our competitive business position. In addition, if we are unable to prevent third parties from infringing or misappropriating our trademarks or other proprietary information, our competitive position could be adversely affected.

Delaware law and our charter documents may impede or discourage a merger, takeover or other business combination even if the business combination would have been in the best interests of our current stockholders.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. In addition, our board of directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock, which could be used defensively if a takeover is threatened. Our incorporation under Delaware law, the ability of our board of directors to create and issue a new series of preferred stock and provisions in our certificate of incorporation and by-laws could impede a merger, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock, even if the business combination would have been in the best interests of our current stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 29, 2006, we had approximately 393 facility leases in locations throughout the world. The lease terms range from a minimum of three months to a maximum of 27 years with options for renewal, expansions, contraction and termination, sublease rights and allowances for improvements. Our significant lease agreements expire at various dates through the year 2022. We believe that our current facilities are sufficient for the operation of our business and that suitable additional space in various local markets is available to accommodate any needs that may arise.

ITEM 3. LEGAL PROCEEDINGS

Various legal proceedings are pending against us and some of our subsidiaries alleging, among other things, breach of contract or tort in connection with the performance of professional services, the outcome of which cannot be predicted with certainty. See Note 8, "Commitments and Contingencies" to our "Consolidated Financial Statements and Supplementary Data" included under Item 8 of this report for a discussion of our most significant legal proceedings. Parties may seek damages that substantially exceed our insurance coverage.

Currently, we have limits of \$125.0 million per loss and \$125.0 million in the aggregate for general liability, professional errors and omissions liability and contractor's pollution liability insurance (in addition to other policies for some specific projects). The general liability policy includes a self-insured claim retention of \$4.0 million (or \$10.0 million in some circumstances). The professional errors and omissions liability and contractor's pollution liability insurance policies each include a self-insured claim retention amount of \$10.0 million each. Parties may seek damages that substantially exceed our insurance coverage.

Excess insurance policies above our primary limits provide for coverages on a "claims made" basis, covering only claims actually made and reported during the policy period currently in effect. Thus, if we do not continue to maintain these policies, we will have no coverage for claims made after the termination date, even for claims based on events that occurred during the term of coverage. While we intend to maintain these policies, we may be unable to maintain existing coverage levels. We have maintained insurance without lapse for many years with limits in excess of losses sustained.

Although the outcome of our legal proceedings cannot be predicted with certainty and no assurances can be provided, based on our previous experience in such matters, we do not believe that any of the legal proceedings described in Note 8, “Commitments and Contingencies” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report individually or collectively, are likely to materially exceed established loss accruals or our various professional errors and omissions, project-specific and potentially other insurance policies. However, the resolution of outstanding claims and litigation is subject to inherent uncertainty and it is reasonably possible that such resolution could differ materially from amounts provided and have an adverse effect on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Position Held	Age
Martin M. Koffel	Chief Executive Officer, President and Director from May 1989; Chairman of the Board from June 1989.	67
Thomas W. Bishop	Vice President, Strategy since July 2003; Senior Vice President, Construction Services since March 2002; Director of Operations for the Construction Services Division from 1999 to 2002.	60
Reed N. Brimhall	Chief Accounting Officer since May 2005; Vice President and Controller since May 2003; Senior Vice President and Controller of Washington Group International, Inc. (“WGI”) from 1999 to 2003.	53
H. Thomas Hicks	Vice President and Chief Financial Officer since March 2006; Vice President since September 2005; Managing Director of Investment Banking, Merrill Lynch from September 1997 to September 2005.	56
Gary V. Jandegian	President of the URS Division and Vice President of the Company since July 2003; Senior Vice President of URS Greiner Woodward-Clyde, Inc. (“URSGWC”) from 1998 to July 2003.	54
Susan B. Kilgannon	Vice President, Communications since October 1999.	48
Joseph Masters	Secretary since March 2006; Vice President and General Counsel since July 1995.	50
Randall A. Wotring	President of the EG&G Division and Vice President of the Company since November 2004; Vice President and General Manager of Engineering and Technology Services (“ETS”) of the EG&G Division from August 2002 to November 2004; Vice President and General Manager of ETS of EG&G Technical Services, Inc. from 1998 to August 2002.	50

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market information

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “URS.” At February 19, 2007, we had approximately 3,611 stockholders of record. The following table sets forth the high and low closing sale prices of our common stock for the periods indicated.

Sale Price per Share	2006		2005	
	Low	High	Low	High
First Quarter	\$38.26	\$44.75	\$27.21	\$31.53
Second Quarter	\$37.78	\$48.87	\$28.15	\$37.73
Third Quarter	\$36.79	\$41.99	\$36.45	\$40.39
Fourth Quarter	\$38.14	\$44.25	\$37.06	\$43.29

We have not paid cash dividends since 1986, and at the present time, we do not anticipate paying dividends on our outstanding common stock in the near future. In addition, we are precluded from paying dividends on our outstanding common stock pursuant to our credit facility with our lender. Please refer to Note 5, “Current and Long-Term Debt” and Note 9, “Stockholders' Equity” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report.

Stock-Based Compensation Plans

Information regarding our stock-based compensation awards outstanding and available for future grants as of December 29, 2006 is presented in Note 9, “Stockholders' Equity” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report.

Stock Purchases

The following table sets forth all purchases made by us or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, of our common stock shares during the fourth quarter of 2006. No purchases were made pursuant to a publicly announced repurchase plan or program.

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
(in thousands, except average price paid per share)				
September 30, 2006 – October 27, 2006	24	\$ 38.14	—	—
October 28, 2006 – November 24, 2006	7	\$ 43.09	—	—
November 25, 2006 – December 29, 2006	—	\$ —	—	—
Total	31		—	—

- (1) Our 1991 Stock Incentive Plan and 1999 Equity Incentive Plan (collectively, the “Stock Incentive Plans”) allow our employees to surrender shares of our common stock as payment toward the exercise cost and tax withholding obligations associated with the exercise of stock options or the vesting of restricted or deferred stock.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the years ended December 29, 2006 and December 30, 2005, the two months ended December 31, 2004⁽¹⁾, the two months ended December 31, 2003 (unaudited), and the fiscal years ended October 31, 2004, 2003, and 2002 is derived from our audited consolidated financial statements and reflects our August 2002 acquisition of EG&G, which was accounted for under the purchase method of accounting. You should read the selected financial data presented below in conjunction with the information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the notes thereto contained in Item 8, "Consolidated Financial Statements and Supplementary Data," of this report.

SELECTED FINANCIAL DATA
(In thousands, except per share data)

	Year Ended December 29, 2006	Year Ended December 30, 2005(1)	Two Months Ended December 31, 2003(1) (Unaudited)		Years Ended October 31,		
			2004(1)		2004	2003	2002
Income Statement Data:							
Revenues	\$ 4,240,150	\$ 3,917,565	\$ 566,997	\$ 489,665	\$3,381,963	\$3,186,714	\$2,427,827
Direct operating expenses	2,737,828	2,555,538	369,527	314,485	2,140,890	2,005,339	1,489,386
Gross profit	1,502,322	1,362,027	197,470	175,180	1,241,073	1,181,375	938,441
Indirect, general and administrative expenses (2,4)	1,283,533	1,187,605	188,400	153,609	1,079,088	999,977	790,099
Operating income	218,789	174,422	9,070	21,571	161,985	181,398	148,342
Interest expense	19,740	31,587	6,787	12,493	60,741	84,564	57,231
Income before income taxes and minority interest	199,049	142,835	2,283	9,078	101,244	96,834	91,111
Income tax expense	84,793	60,360	1,120	3,630	39,540	38,730	35,940
Minority interest in income of consolidated subsidiaries, net of tax	1,244	—	—	—	—	—	—
Net income	113,012	82,475	1,163	5,448	61,704	58,104	55,171
Preferred stock dividend	—	—	—	—	—	—	5,939
Net income after preferred stock dividend	113,012	82,475	1,163	5,448	61,704	58,104	49,232
Less: net income allocated to convertible participating preferred stockholders under the two-class method	—	—	—	—	—	894	907
Net income available for common stockholders	\$ 113,012	\$ 82,475	\$ 1,163	\$ 5,448	\$ 61,704	\$ 57,210	\$ 48,325
Earnings per share:							
Basic	\$ 2.23	\$ 1.76	\$.03	\$.16	\$ 1.58	\$ 1.78	\$ 2.18
Diluted	\$ 2.19	\$ 1.72	\$.03	\$.16	\$ 1.53	\$ 1.76	\$ 2.03
Balance Sheet Data (As of the end of period):							
Total assets	\$ 2,581,029	\$ 2,469,448	\$ 2,307,748	\$ 2,219,319	\$2,275,045	\$2,193,723	\$2,251,905
Total long-term debt	\$ 149,494	\$ 297,913	\$ 508,584	\$ 801,460	\$ 502,118	\$ 788,708	\$ 925,265
Preferred stock	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 46,733
Stockholders' equity (3)	\$ 1,506,687	\$ 1,344,504	\$ 1,082,121	\$ 771,941	\$1,067,224	\$ 765,073	\$ 633,852

(1) Effective January 1, 2005, we adopted a 52/53 week fiscal year ending on the Friday closest to December 31st, with interim quarters ending on the Fridays closest to March 31st, June 30th, and September 30th. We filed a transition report on Form 10-Q with the SEC for the two months ended December 31, 2004. Our 2005 fiscal year began on January 1, 2005 and ended on December 30, 2005.

- (2) Indirect, general and administrative expenses for the 2006 fiscal year included stock-based compensation expense of \$6.6 million recorded in accordance with Statement of Financial Accounting Standards No. 123(R), "*Share-Based Payment*" ("SFAS 123(R)"). There was no stock-based compensation expense related to employee stock options and employee stock purchases under Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS 123"), prior to fiscal year 2006 because we did not adopt the recognition provisions of SFAS 123. See further discussion in Note 9, "Stockholders' Equity" to our "Consolidated Financial Statements" included under Item 8 of this report.
- (3) Stockholders' equity for fiscal year 2006 included the incremental effect of applying and the effects of adopting Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- an amendment of FASB Statements No. 87, 88, 106 and 132(R)*" ("SFAS 158"). During fiscal year 2006, we adopted SFAS 158 and recognized additional pension liabilities of approximately \$4.4 million. We also reduced our stockholders' equity by approximately \$4.4 million on an after-tax basis. See further discussion in Note 10, "Employee Retirement and Post-Retirement Medical Plans" to our "Consolidated Financial Statements and Supplementary Data" included under Item 8 of this report.
- (4) Indirect, general and administrative expenses included charges of \$0.2 million, \$33.1 million and \$28.2 million for costs incurred to extinguish our debt during the years ended December 29, 2006, December 30, 2005, and October 31, 2004, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those described here. You should read this section in conjunction with Item 1A, "Risk Factors," of this report beginning on page 14 and the consolidated financial statements and notes thereto contained in Item 8, "Consolidated Financial Statements and Supplementary Data," of this report.

Fiscal Year Change

Effective January 1, 2005, we adopted a 52/53 week fiscal year ending on the Friday closest to December 31st, with interim quarters ending on the Fridays closest to March 31st, June 30th and September 30th. We filed a transition report on Form 10-Q with the SEC for the two months ended December 31, 2004. Our 2006 fiscal year began on December 31, 2005 and ended on December 29, 2006.

Overview

Business Summary

We are one of the world's largest engineering design services firms and a major federal government contractor for systems engineering and technical assistance, and operations and maintenance services. Our business focuses primarily on providing fee-based professional and technical services in the engineering and defense markets, although we perform some construction work. As a result, we are labor and not capital intensive. We derive income from our ability to generate revenues and collect cash from our clients through the billing of our employees' time and our ability to manage our costs. We operate our business through two segments: the URS Division and the EG&G Division.

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

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

Fiscal Year 2006 Revenues

Consolidated revenues for the year ended December 29, 2006 increased 8.2% over the consolidated revenues for the year ended December 30, 2005.

Because our business continues to grow and change, during the fiscal year ended December 29, 2006, we implemented a new process and refined our definitions for identifying contract revenues by client type. For our discussion and analysis of the year ended December 29, 2006 compared with the year ended December 30, 2005, we have reallocated the revenue identified with each market sector for the year ended December 30, 2005 on the basis of the new system adopted in 2006 to provide comparability with the allocation for the year ended December 29, 2006. However, for our discussion of the results of operations of the year ended December 30, 2005 compared with the year ended October 31, 2004, revenue by client type has not been reallocated, but is stated on a consistent basis for both periods presented.

Revenues from our federal government clients for the year ended December 29, 2006 increased approximately 7% compared with the year ended December 30, 2005. The increase reflects continued growth in demand for the services we provide to the Department of Defense ("DOD") and the Department of Homeland Security ("DHS"), as a result of additional spending on engineering and technical services and operations and maintenance activities related to sustained U.S. military operations in the Middle East, and on security preparedness activities in the U.S. In addition, we experienced an increase in environmental and facilities projects, primarily under large bundled contracts for the DOD. We also began to see contract awards under the DOD's Base Realignment and Closure (BRAC) program.

Revenues from our state and local government clients for the year ended December 29, 2006 increased approximately 7% compared with the year ended December 30, 2005. During 2006, many states experienced increases in tax receipts and, as a result, increased their general fund budgets.

The improved economic and fiscal situation contributed to increases in capital funding at the state and local government level for infrastructure projects, including transportation programs. The passage of the TEA-21 successor highway and transit bill, SAFETEA-LU, in August 2005 also had a positive effect on revenues from our state and local government clients. SAFETEA-LU provides \$287 billion in federal matching funds for state transportation projects. In addition, during recent elections, voters in several states have passed bond initiatives and tax increases to fund infrastructure projects, including improvements to educational, flood control and transportation facilities.

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Our revenues from domestic private sector clients for the year ended December 29, 2006 increased approximately 13% compared with the year ended December 30, 2005. Favorable economic conditions and high energy and commodity prices, led to increased capital spending by many of our domestic private sector clients. In addition, we benefited from our strategic shift towards building longer-term relationships with multinational corporations by migrating from stand-alone consulting contracts to longer-term Master Service Agreements (“MSAs”). As a result, we have leveraged our scale and diverse service offerings to more effectively compete for the new work funded by increased capital spending. In addition, we continued to increase revenues in the power emissions control business. This business is being driven by new environmental regulations, such as the Clean Air Interstate Rule and the Clean Air Mercury Rule, issued by the U.S. Environmental Protection Agency during 2005.

Revenues from our international clients for the year ended December 29, 2006 increased approximately 7% compared with the year ended December 30, 2005, largely the result of growth in the work we performed under MSAs for multinational corporations outside the U.S., particularly from our clients in the oil and gas industry. The impact of foreign currency fluctuations on our revenues for the 2006 fiscal year was immaterial. In Asia-Pacific, we benefited from strong economic growth, which has led to increased funding for infrastructure projects, including transportation and water/wastewater projects. In addition, the increased global demand for mineral resources resulted in additional projects for the mining industry. In Europe, more stringent environmental regulations and new investments in infrastructure projects resulted in increased revenues. The growth in our international business reflects the successful implementation of our strategy to diversify beyond environmental services into the facilities and infrastructure markets internationally.

Cash Flows and Debt

During the year ended December 29, 2006, we generated \$165.0 million in net cash from operations. (See “Consolidated Statements of Cash Flows” to our “Consolidated Financial Statements” included under Item 8 of this report.) While net income increased during the year ended December 29, 2006 compared with the same period in 2005, cash flows from operations decreased by \$35.4 million due primarily to the timing of payments on accounts payable, a decrease in accrued expenses and an increase in deferred income tax asset, offset by increases in collections of accounts receivable.

Our ratio of debt to total capitalization (total debt divided by the sum of debt and total stockholder's equity) improved from 19% at December 30, 2005 to 10% at December 29, 2006. The improvement in our debt to total capitalization ratio reflects our continued focus on de-leveraging our balance sheet.

Business Trends

We believe that our expectations regarding our business trends are reasonable and are based on reasonable assumptions. However, such forward-looking statements, by their nature, involve risks and uncertainties. You should read this discussion of business trends in conjunction with Item 1A, “Risk Factors,” of this report beginning on page 14.

Federal Government

Revenues from our federal government clients increased during 2006, and we expect revenue growth from our federal government clients to continue in fiscal year 2007, based on secured funding by the DOD and the DHS. The President has requested \$93.4 billion supplemental funding to sustain military operations in the Middle East through the end of fiscal 2007. The request includes \$37.2 billion for Operations and Maintenance activities and \$735 million for Research, Development, Test and Evaluation – two of the largest service offerings by our EG&G Division. In addition, Congress approved a 7% increase in the DHS budget for 2007, which includes \$4.3 billion for port security programs and \$3.4 billion for emergency preparedness and prevention. These two items fund a large portion of our homeland security work.

We also view the latest round of the BRAC activities, which are designed to realign and consolidate U.S. military infrastructure worldwide, as a multi-year opportunity for our federal business. In February 2007, Congress approved \$2.5 billion to fund BRAC projects in fiscal 2007 and the President's 2008 DOD budget request includes \$8.2 billion in BRAC funding, which is more than three times the 2007 funding level. Many of the bases targeted for realignment and closure will require environmental, planning and design services before they can be closed or redeveloped. Accordingly, the BRAC program may result in additional federal government opportunities for our URS Division, though it may have both positive and negative impacts on our EG&G Division.

We also anticipate that federal government infrastructure, facilities and environmental projects at military sites will increase under new and existing DOD contracts. Due to the size of our federal contracting business, we may see increased federal government opportunities for our URS and EG&G Divisions as a result of the increasing use of large “bundled” contracts issued by the DOD, which typically require the provision of a full range of services at multiple sites throughout the world.

State and Local Government

General fund spending by state government clients grew in fiscal 2006, and we expect this trend to continue in fiscal year 2007. Given the growing need to rebuild and modernize aging infrastructure and increasing tax receipts at the state level, we expect increased spending on infrastructure programs for which we provide services. We also expect the \$287 billion highway and transit funding bill, SAFETEA-LU, to continue to provide stable funding for current and new transportation projects through 2009. In addition, we anticipate increased infrastructure spending as a result of bond issues, totaling approximately \$68 billion, which were approved in November in 19 states to fund highway, public building and school improvement projects.

The increased spending on infrastructure programs, while beneficial to our business, is presenting us with some challenges. Rising raw material costs are leading to higher construction bids and depleting funds more quickly than state and municipal funding agencies had anticipated. As a result, we are seeing delays in the start-up of some planning and design assignments, as these agencies secure additional funding. We are also experiencing the effects of staffing shortages at some state and municipal agencies. After years of employee attrition, some agencies do not have sufficient personnel to manage multiple large programs concurrently.

Domestic Private Industry

We expect revenues from our domestic private industry clients to increase during the 2007 fiscal year compared to fiscal year 2006. The domestic private industry market has shown strong growth, particularly in the oil and gas, power and mining sectors. Many of our private industry clients are increasing capital expenditures as capacity utilization has grown to meet strong demand. We also expect the sustained profitability of our energy sector clients to continue to drive capital investment.

In addition, we anticipate continued growth in the power emissions control business, resulting from the requirements to cut sulfur dioxide and mercury emissions mandated by the Clean Air Interstate and Clean Air Mercury rules. We also expect to continue to benefit from our growing number of MSA contracts with multinational corporations, which have reduced the number of stand-alone consulting assignments we perform and are enabling us to win new work resulting from increased capital spending.

International

The increase in MSAs in our domestic private sector business has benefited and strengthened revenues from our international private sector clients. Notwithstanding the impact of foreign currency exchange rates, we expect revenues from our international clients to continue to increase in fiscal year 2007. In Europe, we expect to see increasing demand of our facilities design services for the United Kingdom Ministry of Defense and for the U.S. DOD at military installations overseas. In addition, we continue to see favorable market trends in Europe, including more stringent environmental regulations from the European Union and new investment in infrastructure projects—both leading to increased demand for the services we provide. In the Asia-Pacific region, we expect strong economic growth to increase opportunities in the infrastructure market. In addition, we anticipate that the increased global demand for mineral resources will provide additional opportunities in the mining sector.

Stock-based Compensation Expense

We adopted SFAS 123(R) on December 31, 2005, the beginning of our 2006 fiscal year, using the modified prospective transition method. Accordingly, results of prior periods have not been restated to reflect and do not include the impact of SFAS 123(R). Upon adoption of SFAS 123(R), we recorded stock-based compensation expense for all stock-based compensation awards granted prior to, but not yet recognized as of December 31, 2005, based on the fair value at the grant date in accordance with the original provisions of SFAS 123. In addition, we recorded compensation expense for the share-based payment awards granted between December 31, 2005 and December 29, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

In light of the impact associated with the adoption of SFAS 123(R), since its adoption, we have issued only restricted stock awards and units, rather than stock options, to selected employees in order to minimize the volatility of our stock-based compensation expense.

Stock option awards expire ten years from the date of grant. Stock options, restricted stock awards, and restricted stock units vest over service periods that range from three to four years. Our Employee Stock Purchase Plan ("ESPP") qualifies as a non-compensatory plan under SFAS 123(R). As a result of adopting SFAS 123(R) in 2006, our fiscal 2006 net income and diluted earnings per share were reduced by \$3.8 million and \$0.07, respectively.

Other

Our federal government and state and local government clients have been increasing their use of design-build delivery mechanisms, where we are the designer, but generally team up with a construction contractor in order to obtain the design-build contract. Design-build delivery mechanisms provide high margins, but also involve greater financial risk than traditional design-bid-build programs, where we contract directly with our clients.

We are experiencing an increase in the use of lump-sum fixed price contracts by our clients, which often include higher margins, but also present more financial risk than cost-plus and time-and-materials contracting mechanisms.

Some state and local government projects have been delayed due to the rising raw material costs and a shortage of government staff to implement new projects.

Results of Operations

Consolidated

	Year Ended December 29, 2006	Year Ended December 30, 2005	Increase (Decrease)	Percentage Increase (Decrease)
(In millions, except percentages and per share amounts)				
Revenues	\$ 4,240.1	\$ 3,917.6	\$ 322.5	8.2%
Direct operating expenses	2,737.8	2,555.6	182.2	7.1%
Gross profit	1,502.3	1,362.0	140.3	10.3%
Indirect, general and administrative expenses	1,283.5	1,187.6	95.9	8.1%
Operating income	218.8	174.4	44.4	25.5%
Interest expense	19.8	31.6	(11.8)	(37.3%)
Income before income taxes and minority interest	199.0	142.8	56.2	39.4%
Income tax expense	84.8	60.3	24.5	40.6%
Minority interest in income of consolidated subsidiaries, net of tax	1.2	—	1.2	100.0%
Net income	\$ 113.0	\$ 82.5	\$ 30.5	37.0%
Diluted earnings per share	\$ 2.19	\$ 1.72	\$ 0.47	27.3%

The Year Ended December 29, 2006 Compared with the Year Ended December 30, 2005

Our consolidated revenues for the year ended December 29, 2006 increased by 8.2% compared with the year ended December 30, 2005. The increase was due primarily to a higher volume of work performed in each of our client categories during the year ended December 29, 2006, compared with the year ended December 30, 2005.

The following table presents our consolidated revenues by client type for the years ended December 29, 2006 and December 30, 2005.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Increase	Percentage Increase
(In millions, except percentages)				
Revenues				
Federal government clients	\$ 1,952	\$ 1,824	\$ 128	7 %
State and local government clients	914	854	60	7 %
Domestic private industry clients	970	862	108	13 %
International clients	404	378	26	7 %
Total revenues, net of eliminations	\$ 4,240	\$ 3,918	\$ 322	8 %

Revenues from our federal government clients for the year ended December 29, 2006 increased by 7% compared with the year ended December 30, 2005. The increase reflects continued growth in demand for the services we provide to the DOD and the DHS, as a result of additional spending on engineering and technical services and operations and maintenance activities related to sustained U.S. military operations in the Middle East and on security preparedness activities in the U.S. We also experienced an increase in facilities and environmental projects, primarily under large bundled contracts for DOD agencies. In addition, we benefited from new work associated with the BRAC activities to realign and consolidate U.S. military installations worldwide.

The majority of our work in the state and local government, domestic private industry and the international sectors is derived from our URS Division. Further discussion of the factors and activities that drove changes in operations on a segment basis for the year ended December 29, 2006 can be found beginning on page 35.

Our consolidated direct operating expenses for the year ended December 29, 2006, which consist of direct labor, subcontractor costs and other direct expenses, increased by 7.1% compared with the year ended December 30, 2005. Because our revenues are primarily service-based, the factors that caused revenue growth also drove a corresponding increase in our direct operating expenses.

Our consolidated gross profit for the year ended December 29, 2006 increased by 10.3% compared with the year ended December 30, 2005, primarily due to the increase in our revenue volume described previously and to a lesser extent, pricing and award fee increases.

Our consolidated indirect, general and administrative ("IG&A") expenses for the year ended December 29, 2006 increased by 8.1% compared with the year ended December 30, 2005. The increase was due to the following items:

- an increase of \$90.8 million in employee-related expenses due to both changes in headcount and an increase in cost per employee, including stock compensation cost of \$18.4 million;
- an increase of \$20.2 million in indirect labor, primarily as a result of an increase in employee headcount;
- an increase of \$8.7 million in consulting service expense;
- an increase of \$7.8 million in rent expense, \$7.1 million in insurance expense, and \$5.9 million in sales and business development expense; offset by
- a \$5.9 million decrease in legal expense, primarily as a result of a \$7.0 million payment related to the Banque Saudi Fransi claim which was recognized during fiscal year 2005;
- a \$6.5 million decrease in other administrative expense; and
- a \$33.1 million in loss on extinguishment of debt recognized in fiscal year 2005 without a comparative charge in 2006.

Our consolidated interest expense for the year ended December 29, 2006 decreased due to lower debt balances.

Our effective income tax rates for the year ended December 29, 2006 increased to 42.6% from 42.3% for the year ended December 30, 2005. (See further discussion Note 4, "Income Taxes" to our "Consolidated Financial Statements and Supplementary Data" included under Item 8 of this report.)

Our consolidated operating income, net income and earnings per share increased as a result of the factors previously described.

Reporting Segments

The Year Ended December 29, 2006 Compared with the Year Ended December 30, 2005

	Revenues	Direct Operating Expenses	Gross Profit	Indirect, General and Administrative	Operating Income (Loss)
(In millions, except percentages)					
Year ended December 29, 2006					
URS Division	\$ 2,804.7	\$ 1,707.8	\$ 1,096.9	\$ 905.2	\$ 191.7
EG&G Division	1,450.9	1,044.5	406.4	335.0	71.4
Eliminations	(15.5)	(14.5)	(1.0)	—	(1.0)
	4,240.1	2,737.8	1,502.3	1,240.2	262.1
Corporate	—	—	—	43.3	(43.3)
Total	\$ 4,240.1	\$ 2,737.8	\$ 1,502.3	\$ 1,283.5	\$ 218.8
Year ended December 30, 2005					
URS Division	\$ 2,556.7	\$ 1,561.9	\$ 994.8	\$ 800.6	\$ 194.2
EG&G Division	1,369.0	1,001.3	367.7	304.3	63.4
Eliminations	(8.1)	(7.6)	(0.5)	—	(0.5)
	3,917.6	2,555.6	1,362.0	1,104.9	257.1
Corporate	—	—	—	82.7	(82.7)
Total	\$ 3,917.6	\$ 2,555.6	\$ 1,362.0	\$ 1,187.6	\$ 174.4
Increase (decrease) for the year ended December 29, 2006 vs. the year ended December 30, 2005					
URS Division	\$ 248.0	\$ 145.9	\$ 102.1	\$ 104.6	\$ (2.5)
EG&G Division	81.9	43.2	38.7	30.7	8.0
Eliminations	(7.4)	(6.9)	(0.5)	—	(0.5)
	322.5	182.2	140.3	135.3	5.0
Corporate	—	—	—	(39.4)	39.4
Total	\$ 322.5	\$ 182.2	\$ 140.3	\$ 95.9	\$ 44.4
Percentage increase (decrease) for the year ended December 29, 2006 vs. the year ended December 30, 2005					
URS Division	9.7%	9.3%	10.3%	13.1%	(1.3%)
EG&G Division	6.0%	4.3%	10.5%	10.1%	12.6%
Eliminations	91.4%	90.8%	100.0%	—	100.0%
Corporate	—	—	—	(47.6%)	(47.6%)
Total	8.2%	7.1%	10.3%	8.1%	25.5%

URS Division

The URS Division's revenues for the year ended December 29, 2006 increased 9.7% compared with the year ended December 30, 2005. The increase in revenues was due to the various factors discussed below in each of our client markets.

The following table presents the URS Division's revenues by client type for the years ended December 29, 2006 and December 30, 2005.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Increase (Decrease)	Percentage Increase (Decrease)
Revenues				
Federal government clients	\$ 501	\$ 455	\$ 46	10%
State and local government clients	914	854	60	7%
Domestic private industry clients	970	862	108	13%
International clients	404	378	26	7%
Total revenues, net of eliminations	\$ 2,789	\$ 2,549	\$ 240	9%

Revenues from the URS Division's federal government clients for the year ended December 29, 2006 increased by approximately 10% compared with the year ended December 30, 2005. This increase was largely driven by steady growth in infrastructure, environmental and facilities projects under existing and new contract awards with the DOD, including new assignments in support of the BRAC program. Revenues from homeland security projects also contributed to this growth, as we continued to provide a range of engineering services to the DHS in support of security preparedness and disaster response initiatives.

In addition, a portion of this increase was associated with disaster recovery services provided to U.S. federal government agencies in the Gulf Coast region, particularly in the first quarter of fiscal 2006 in the aftermath of the destructive 2005 Atlantic hurricane season. We also benefited from our success in leveraging the combined scale of expertise of both our URS and EG&G Divisions to win large, bundled indefinite delivery contracts with the DOD.

Revenues from our state and local government clients for the year ended December 29, 2006 increased by approximately 7% compared with the year ended December 30, 2005. In 2006, we experienced favorable market conditions in this sector of our business as state and local economies continued to improve, reducing the pressure to limit spending on infrastructure projects. During 2006, many states experienced increased tax receipts and, as a result of improved fiscal conditions, increased their spending on transportation and facilities projects.

In addition, the passage of SAFETEA-LU, the \$287 billion federal highway and transit funding bill during 2005 continues to have a positive impact on our state and local government revenues. Furthermore, we have begun to win new work associated with the recent approval of major bond initiatives in 19 states totaling approximately \$68 billion to fund highway, public building and school improvement projects. In coastal states, we also are benefiting from increased funding to support flood and storm protection initiatives following the devastating hurricane season of 2005.

For the year ended December 29, 2006, revenues from our domestic private industry clients increased 13% compared with the year ended December 30, 2005. This strong growth reflects our transition to high growth markets within the private sector, our growth in longer-term MSAs with Fortune 500 companies and favorable economic market conditions, including relatively high energy and commodity prices. A major portion of our revenue growth from domestic private sector clients was due to growth in the emissions control portion of our work in the power sector. This work has been driven by new environmental regulations, such as the Clean Air Interstate Rule and the Clean Air Mercury Rule, which accelerate mandates to reduce sulfur dioxide and mercury emissions.

We also benefited from the increased number of client relationships managed under MSAs, which now account for more than 75% of our worldwide private sector business. These longer-term relationships have enabled us to migrate from stand-alone consulting contracts, reducing the marketing expenses associated with pursuing these assignments while improving our labor utilization levels. In addition, revenues from our oil and gas clients also grew due to higher gasoline prices, which increased oil and gas company profits, leading to additional investment in gas infrastructure projects.

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Revenues from our international clients for the year ended December 29, 2006 increased by 7% compared with the year ended December 30, 2005, largely the result of growth in the work we perform under MSAs for multinational corporations outside the U.S., particularly from our clients in the oil and gas industry. The impact of foreign currency fluctuations on our revenues for the fiscal year ended December 29, 2006 was immaterial. In Asia-Pacific, we benefited from strong economic growth, which has led to increased funding for infrastructure projects, including transportation and water/wastewater projects. In addition, the increased global demand for mineral resources resulted in additional projects for the mining industry. In Europe, more stringent environmental directives from the European Union and new investment in infrastructure projects resulted in increased revenues.

The URS Division's direct operating expenses for the year ended December 29, 2006 increased by 9.3% compared with the year ended December 30, 2005. The factors that caused revenue growth also drove an increase in our direct operating expenses. Direct operating expenses increased at a higher percentage than revenues as a result of increases in subcontractor costs and other direct operating costs.

The URS Division's gross profit for the year ended December 29, 2006 increased by 10.3% compared with the year ended December 30, 2005, primarily due to the increase in revenue volume described previously and to a lesser extent, pricing increases. Our gross profit margin percentage increased to 39.1% for the year ended December 29, 2006 from 38.9% for the year ended December 30, 2005.

The URS Division's IG&A expenses for the year ended December 29, 2006 increased by 13.1% compared with the year ended December 30, 2005. The increase was due to the following items:

- an increase of \$67.2 million in employee-related expenses due to both an increase in headcount and an increase in cost per employee, including stock compensation cost;
- an increase of \$17.1 million in indirect labor, primarily as a result of an increase in employee headcount, salary cost increases and recruiting and retention costs; and
- increases of \$5.7 million in rent expense, \$4.3 million in sales and business development expense, \$4.6 million in insurance expense, and \$4.3 million in consulting service expense.

EG&G Division

The EG&G Division's revenues for the year ended December 29, 2006 increased by 6% compared with the year ended December 30, 2005. The increase was driven by the high level of military activity in the Middle East, resulting in a higher volume of operations and maintenance work and greater demand for modification work for military vehicles and weapons. We also experienced growth in demand for specialized systems engineering and technical assistance services that we provide for the development, testing and evaluation of weapons systems. In addition, revenues generated from activities in the homeland security and logistics management markets increased during the 2006 fiscal year.

The EG&G Division's direct operating expenses for the year ended December 29, 2006 increased by 4.3% compared with the year ended December 30, 2005. Higher revenues drove an increase in our direct operating expenses.

The EG&G Division's gross profit for the year ended December 29, 2006 increased by 10.5% compared with the year ended December 30, 2005. The increase in gross profit was primarily due to higher revenues from existing defense technical services and military equipment maintenance contracts. Our gross profit margin percentage increased to 28.0% for the year ended December 29, 2006 from 26.9% for the year ended December 30, 2005 as a result of larger award and incentive fees earned on operations and maintenance contracts.

The EG&G Division's IG&A expenses for the year ended December 29, 2006 increased by 10.1% compared with the year ended December 30, 2005. The increase was primarily due to higher business volume. The EG&G Division's indirect expenses are generally variable in nature and, as such, any increase in business volume tends to result in higher indirect expenses. Approximately \$21.7 million of the increase was due to indirect labor and employee-related expenses resulting from both changes in headcount and an increase in cost per employee, including stock-based compensation cost. Indirect expenses as a percentage of revenues increased to 23.1%, for the year ended December 29, 2006 from 22.2% for the year ended December 30, 2005, primarily as a result of stock-based compensation cost recognized under SFAS 123(R).

Consolidated

	Year Ended December 30, 2005	Year Ended October 31, 2004	Increase (Decrease)	Percentage Increase (Decrease)
(In millions, except percentages and per share amounts)				
Revenues	\$ 3,917.6	\$ 3,382.0	\$ 535.6	15.8%
Direct operating expenses	2,555.6	2,140.9	414.7	19.4%
Gross profit	1,362.0	1,241.1	120.9	9.7%
Indirect, general and administrative expenses	1,187.6	1,079.1	108.5	10.1%
Operating income	174.4	162.0	12.4	7.7%
Interest expense	31.6	60.7	(29.1)	(47.9%)
Income before income taxes	142.8	101.3	41.5	41.0%
Income tax expense	60.3	39.6	20.7	52.3%
Net income	\$ 82.5	\$ 61.7	\$ 20.8	33.7%
Diluted earnings per share	\$ 1.72	\$ 1.53	\$.19	12.4%

The Year Ended December 30, 2005 Compared with the Year Ended October 31, 2004

Our consolidated revenues for the year ended December 30, 2005 increased by 15.8% compared with the year ended October 31, 2004. The increase was due to the higher volume of work performed in each of our client categories during the year ended December 30, 2005, compared with the year ended October 31, 2004.

The following table presents our consolidated revenues by client type for the years ended December 30, 2005 and October 31, 2004.

	Year Ended December 30, 2005	Year Ended October 31, 2004	Increase	Percentage Increase
(In millions, except percentages)				
Revenues				
Federal government clients	\$ 1,888	\$ 1,619	\$ 269	17 %
State and local government clients	888	686	202	29 %
Domestic private industry clients	764	762	2	— %
International clients	378	315	63	20 %
Total revenues, net of eliminations	\$ 3,918	\$ 3,382	\$ 536	16 %

Revenues from our federal government clients for the year ended December 30, 2005 increased by 17% compared with the year ended October 31, 2004. The increase reflects continued growth in operations and maintenance work for the U.S. military associated with the continued high level of activities in the Middle East, and systems engineering and technical assistance services for the development, testing and evaluation of weapons systems. The volume of task orders issued under IDCs for the federal government continued to increase, particularly for facilities and environmental projects and emergency preparedness exercises.

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The majority of our work in the state and local government, the domestic private industry and the international sectors is derived from our URS Division. Further discussion of the factors and activities that drove changes in operations on a segment basis for the year ended December 30, 2005 can be found beginning on page 40.

Our consolidated direct operating expenses for the year ended December 30, 2005, which consist of direct labor, subcontractor costs and other direct expenses, increased by 19.4% compared with the year ended October 31, 2004. The factors that caused revenue growth also drove a corresponding increase in our direct operating expenses. Volume increases in work on existing contracts with lower profit margins and an increase in the amount of subcontractor and other direct costs caused direct operating expenses to increase at a faster rate than revenues.

Our consolidated gross profit for the year ended December 30, 2005 increased by 9.7% compared with the year ended October 31, 2004, due to the increase in our revenue volume described previously. Our gross margin percentage, however, fell from 36.7% to 34.8%. The decrease in gross profit margin percentage was caused by a change in revenue mix between the two periods, with a higher volume of revenue during the year ended December 30, 2005 coming from contracts with profit margins that were lower than our 2004 portfolio of contracts, and an increase in revenues from subcontractor and other direct costs, which generate lower profit margins than revenues earned on our direct labor.

Our consolidated indirect, general and administrative ("IG&A") expenses for the year ended December 30, 2005 increased by 10.1% compared with the year ended October 31, 2004. This increase was due to the following items:

- an increase of \$61.1 million in employee-related expenses due to both an increase in headcount and an increase in costs per employee;
- an increase of \$14.8 million in indirect labor, primarily as a result of our higher employee headcount;
- an increase of \$5.0 million in loss on extinguishment of debt from \$28.2 million for the year ended October 31, 2004 to \$33.1 million for the year ended December 30, 2005;
- an increase of \$12.0 million in legal expenses and claims, which included approximately \$7.0 million for the Banque Saudi Fransi claim; and
- increases of \$10.1 million in travel expense, \$8.3 million in sales and business development expense, \$4.9 million in consulting cost, and \$4.2 million in rental expense.

Indirect expenses as a percentage of revenues decreased to 30.3% for the year ended December 30, 2005 from 31.9% for the year ended October 31, 2004 due to an increase in labor hours chargeable to revenue-generating activities.

Our consolidated interest expense for the year ended December 30, 2005 decreased due to lower debt balances.

Our effective income tax rates for the year ended December 30, 2005 increased to 42.3% from 39.1% for the year ended October 31, 2004, due to fourth quarter accounting adjustments related to historical purchase accounting recorded in the fourth quarter of 2005, offset by hurricane-related tax credits and adjustments to our income tax reserves. (See further discussion Note 4, "Income Taxes" to our "Consolidated Financial Statements and Supplementary Data" included under Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 30, 2005.)

Our consolidated operating income, net income and earnings per share increased as a result of the factors previously described.

Reporting Segments

The Year Ended December 30, 2005 Compared with the Year Ended October 31, 2004

	Revenues	Direct Operating Expenses	Gross Profit	Indirect, General and Administrative	Operating Income (Loss)
(In millions, except percentages)					
Year ended December 30, 2005					
URS Division	\$ 2,556.7	\$ 1,561.9	\$ 994.8	\$ 800.6	\$ 194.2
EG&G Division	1,369.0	1,001.3	367.7	304.3	63.4
Eliminations	(8.1)	(7.6)	(0.5)	—	(0.5)
	3,917.6	2,555.6	1,362.0	1,104.9	257.1
Corporate	—	—	—	82.7	(82.7)
Total	\$ 3,917.6	\$ 2,555.6	\$ 1,362.0	\$ 1,187.6	\$ 174.4

Year ended October 31, 2004

URS Division	\$ 2,255.2	\$ 1,326.6	\$ 928.6	\$ 760.4	\$ 168.2
EG&G Division	1,129.8	817.3	312.5	257.6	54.9
Eliminations	(3.0)	(3.0)	—	—	—
	3,382.0	2,140.9	1,241.1	1,018.0	223.1
Corporate	—	—	—	61.1	(61.1)
Total	\$ 3,382.0	\$ 2,140.9	\$ 1,241.1	\$ 1,079.1	\$ 162.0

Increase (decrease) for the year ended December 30, 2005 vs. the year ended October 31, 2004

URS Division	\$ 301.5	\$ 235.3	\$ 66.2	\$ 40.2	\$ 26.0
EG&G Division	239.2	184.0	55.2	46.7	8.5
Eliminations	(5.1)	(4.6)	(0.5)	—	(0.5)
	535.6	414.7	120.9	86.9	34.0
Corporate	—	—	—	21.6	(21.6)
Total	\$ 535.6	\$ 414.7	\$ 120.9	\$ 108.5	\$ 12.4

Percentage increase (decrease) for the year ended December 30, 2005 vs. the year ended October 31, 2004

URS Division	13.4%	17.7%	7.1%	5.3%	15.5%
EG&G Division	21.2%	22.5%	17.7%	18.1%	15.5%
Eliminations	170.0%	153.3%	100.0%	—	100.0%
Corporate	—	—	—	35.4%	35.4%
Total	15.8%	19.4%	9.7%	10.1%	7.7%

URS Division

The URS Division's revenues for the year ended December 30, 2005 increased 13% compared with the year ended October 31, 2004. The increase in revenues was due to the various factors discussed below in each of our client markets.

The following table presents the URS Division's revenues by client type for the years ended December 30, 2005 and October 31, 2004.

	Year Ended December 30, 2005	Year Ended October 31, 2004	Increase	Percentage Increase
			(In millions, except percentages)	
Revenues				
Federal government clients	\$ 519	\$ 489	\$ 30	6%
State and local government clients	888	686	202	29%
Domestic private industry clients	764	762	2	—%
International clients	378	315	63	20%
Total revenues, net of eliminations	\$ 2,549	\$ 2,252	\$ 297	13%

Revenues from the URS Division's federal government clients for the year ended December 30, 2005 increased by approximately 6% compared with the year ended October 31, 2004. In part, this increase was related to our work supporting federal clients such as FEMA, which is now part of the DHS, the Army Corps of Engineers and the U.S. Postal Service, in disaster recovery efforts following Hurricanes Katrina, Rita, and Wilma. The increase was also driven by additional environmental and facilities projects under existing contracts with the DOD. Revenues from homeland security projects also contributed to this growth, as we continue to provide a range of engineering services to the DHS.

Revenues from our state and local government clients for the year ended December 30, 2005 increased by approximately 29% compared with the year ended October 31, 2004. The increase reflected an improvement in the states' economies and general funds, fueled by increased state tax revenues. Generally, states have recovered from the recent recession, and began to increase spending on programs for which we provide services, such as surface transportation. We also continued to experience revenue increases from school facilities and water/wastewater projects. In addition, the recent passage of SAFETEA-LU had a positive impact on revenues from our state and local government clients.

Revenues from our domestic private industry clients for the year ended December 30, 2005 were flat compared with the year ended October 31, 2004. Spending among many of our private sector clients remained constrained. However, we experienced revenue growth in the emissions control portion of our power sector business as we shifted our resources into rapidly emerging areas of the environmental market driven by new environmental regulations, such as the Clean Air Interstate Rule and the Clean Air Mercury Rule, which were issued by the U.S. Environmental Protection Agency during 2005. We also shifted our focus towards building longer-term relationships with multinational corporations by migrating from stand-alone consulting contracts to longer-term MSAs in order to leverage our scale and diversify our service offerings.

We also successfully increased the number of client relationships managed under MSAs, as the number of stand-alone consulting assignments continued to decline. Revenues from our oil and gas clients also grew due to higher gasoline prices, which increased oil and gas company revenues, leading to additional investment in gas infrastructure projects.

Revenues from our international clients for the year ended December 30, 2005 increased by 20% compared with the year ended October 31, 2004. Approximately 3% of this increase was due to foreign currency exchange fluctuations. The remainder of the increase was due to our continuing efforts to diversify beyond environmental work into the facilities and infrastructure markets. The Asia-Pacific region benefited from strong economic growth, leading to increased funding for facilities and infrastructure programs, including transportation and water/wastewater projects.

In addition, the increased global demand for mineral resources has resulted in additional projects for the mining industry. In Europe, we continued to benefit from more stringent environmental directives from the European Union, leading to increased work in environmental impact statements (including sustainability issues), water/wastewater projects, and carbon emissions control projects.

The URS Division's direct operating expenses for the year ended December 30, 2005 increased by 18% compared with the year ended October 31, 2004. The factors that caused revenue growth also drove an increase in our direct operating expenses. Direct operating expenses increased at a higher percentage than revenues as a result of increases in subcontractor costs and other direct expenses.

The URS Division's gross profit for the year ended December 30, 2005 increased by 7% compared with the year ended October 31, 2004, primarily due to the increase in revenue volume described previously and to a lesser extent, pricing increases. Our gross profit margin percentage decreased to 38.9% for the year ended December 30, 2005 from 41.2% for the year ended October 31, 2004. Our gross profit margin percentage decreased primarily because our subcontractor costs and other direct costs, which generally bear lower profit margins than our direct labor costs, accounted for a higher percentage of our total direct operating expenses during the year ended December 30, 2005 (59.1%), compared with the year ended October 31, 2004 (54.0%).

The URS Division's IG&A expenses for the year ended December 30, 2005 increased by 5% compared with the year ended October 31, 2004. This increase was due to an additional \$28.1 million in employee-related expenses due to both an increase in headcount and an increase in costs per employee. The remainder of the increase was due to a \$6.7 million increase in indirect labor, a \$7.5 million increase in sales and business development expenses, a \$3.7 million increase in rental expense, and a \$4.1 million increase in travel expense. These increases were offset by a \$5.2 million decrease in bad debt expense and a \$3.1 million decrease in depreciation and amortization expense.

EG&G Division

The EG&G Division's revenues for the year ended December 30, 2005 increased by 21% compared with the year ended October 31, 2004. This increase was driven by the high level of military activity in the Middle East, resulting in a higher volume of operations and maintenance work and greater demand for modification work for military vehicles and weapons systems. We experienced growth in demand for specialized systems engineering and technical assistance services that we provide for the development, testing and evaluation of weapons systems. In addition, revenues generated from activities in the homeland security and logistics management markets increased during the 2006 fiscal year.

The EG&G Division's direct operating expenses for the year ended December 30, 2005 increased by 23% compared with the year ended October 31, 2004. Higher revenues drove an increase in our direct operating expenses. In addition, a greater volume of work on existing contracts with lower profit margins caused direct operating expenses to increase faster than revenues.

The EG&G Division's gross profit for the year ended December 30, 2005 increased by 18% compared with the year ended October 31, 2004. The increase in gross profit was primarily due to higher revenues from existing defense technical services and military equipment maintenance contracts. However, our gross profit margin percentage decreased to 26.9% for the year ended December 30, 2005 from 27.7% for the year ended October 31, 2004 because a significant portion of the revenue increase was generated by operations and maintenance and field-based services, which generally carry lower margins than most other services provided by the EG&G Division.

The EG&G Division's IG&A expenses for the year ended December 30, 2005 increased by 18% compared with the year ended October 31, 2004. The increase was primarily due to a higher business volume. The EG&G Division's indirect expenses are generally variable in nature and, as such, any increase in business volume tends to result in higher indirect expenses. Of the total increase, approximately \$35.8 million was due to increases in indirect labor and employee-related expenses, both resulting from an increase in headcount and an increase in costs per employee. Indirect expenses as a percentage of revenues decreased to 22.2% for the year ended December 30, 2005 from 22.8% for the year ended October 31, 2004.

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We had a transition period for the two months ended December 31, 2004 as a result of changing our fiscal year ended October 31, 2004 to fiscal year ended December 31, 2004. As the transition period only contained two months of our results, it is not indicative of our annual results. For a detailed discussion of the transition period, please read our annual report on Form 10-K filed with the SEC for the year ended December 30, 2005.

Liquidity and Capital Resources

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
Cash flows from operating activities	\$ 165.0	\$ 200.4	\$ 15.0	\$ 95.5
Cash flows from investing activities	(34.3)	(22.1)	(1.6)	(19.0)
Cash flows from financing activities	(142.7)	(184.8)	25.3	(43.5)
Proceeds from sale of common stock and exercise of stock options	24.0	38.9	5.2	26.6
Proceeds from common stock offering, net of related expenses	--	130.3	--	204.3

Our primary sources of liquidity were cash flows from operations, borrowings under our credit lines during the fiscal years ended December 29, 2006, and cash flows from operations, borrowings under our credit lines and proceeds from a public common stock offering during the fiscal year ended December 30, 2005. Our primary uses of cash have been to fund our working capital and capital expenditures, and to service and retire our debt. We believe that we have sufficient cash flows to fund our operating and capital expenditure requirements, as well as service our debt, for the next 12 months and beyond. If we experience a significant change in our business such as the consummation of a significant acquisition, we would likely need to acquire additional sources of financing. We believe that we would be able to obtain adequate sources of funding to address significant changes in our business at reasonable rates and terms, as necessary, based on our past experience with business acquisitions.

Cash and cash equivalents include all highly liquid investments with maturities of 90 days or less at the date of purchase. At December 29, 2006 and December 30, 2005, we had book overdrafts for some of our disbursement accounts. These overdrafts represented transactions that had not cleared the bank accounts at the end of the reporting period. We transferred cash on an as-needed basis to fund these items as they cleared the bank in subsequent periods.

At December 29, 2006 and December 30, 2005, cash and cash equivalents included \$38.7 million and \$43.5 million held by our consolidated joint ventures.

We are dependent on the cash flows generated by our subsidiaries and, consequently, on their ability to collect on their respective accounts receivable. Substantially all of our cash flows are generated by our subsidiaries. As a result, the funds necessary to meet our debt service obligations are provided in large part by distributions or advances from our subsidiaries. The financial condition and operational requirements of our subsidiaries may limit our ability to obtain cash from them.

Billings and collections on accounts receivable can impact our operating cash flows. Management places significant emphasis on collection efforts, has assessed the allowance accounts for receivables as of December 29, 2006 and has deemed them to be adequate; however, future economic conditions may adversely impact some of our clients' ability to pay our bills or the timeliness of their payments. Consequently, it may also impact our ability to consistently collect cash from them to meet our operating needs.

In the ordinary course of our business, we may realize various loss contingencies, including, but not limited to the pending legal proceedings, identified in Note 8, "Commitments and Contingencies," which may adversely affect our liquidity and capital resources.

Operating Activities

The decrease in cash flows from operating activities for the year ended December 29, 2006 compared with the year ended December 30, 2005 was primarily due to a decrease in Accounts Payable and Subcontractors Payable as a result of the timing of payments, a decrease in Accrued Expenses and an increase in Deferred Income Tax Asset, offset by Accounts Receivables and Accrued Earnings in Excess of Billings on Contracts in Process, resulting from the timing of collections.

The increase in cash flow from operating activities for the year ended December 30, 2005 compared with the year ended October 31, 2004 was primarily due to increases in Accounts Receivables and Accrued Earnings in Excess of Billings on Contracts in Process, resulting from the timing of collections, and a decrease in deferred income tax liabilities, offset by non-cash debt extinguishment costs and an increase in Accounts Payable and Subcontractors Payable, resulting from the timing of payments.

Investing Activities

As a professional services organization, we are not capital intensive. Our capital expenditures have historically been primarily for various information systems to accommodate our growth. Capital expenditures, excluding purchases financed through capital leases, during the years ended December 29, 2006, December 30, 2005, and October 31, 2004 were \$29.3 million, \$23.0 million, and \$19.0 million, respectively. For the two months ended December 31, 2004, capital expenditures, excluding purchases financed through capital leases, were \$1.6 million.

Financing Activities

Cash flows used for financing activities of \$142.7 million during the year ended December 29, 2006 consisted primarily of the following activities:

- Payment of \$156.0 million of the term loan under our credit facility;
- Payment of \$2.8 million of our 11½% senior notes ("11½% Notes");
- Net borrowings of \$1.4 million under our lines of credit and short-term notes;
- Payments of \$13.0 million in capital lease obligations;
- Change in book overdrafts of \$1.8 million;
- Excess tax benefits from stock-based compensation of \$6.0 million; and
- Proceeds from the sale of common stock from our ESPP and exercise of stock options of \$24.0 million.

Cash flows used for financing activities of \$184.8 million during the year ended December 30, 2005 consisted primarily of the following activities:

- Payment of \$353.8 million of the term loans under the old credit facility;
- Issuance of \$350.0 million of new term loan, \$80.0 million of which was paid during the year;
- Net payment of \$18.0 million under the line of credit;
- Payments of \$31.6 million in capital lease obligation, notes payable (net of borrowings), our 12¼% senior subordinated notes ("12¼% notes") and our 6½% convertible subordinated debentures ("6½% debentures");
- Change in book overdrafts of \$69.3 million;
- Proceeds from the sale of common stock from the employee stock purchase plan and exercise of stock options of \$38.9 million; and
- Net proceeds generated from our public common stock offering of \$130.3 million, which was used to pay \$127.2 million of our 11½% notes and \$18.8 million of tender premiums and expenses.

On June 8, 2005, we sold an aggregate of 4,000,393 shares of our common stock through a public offering. The offering price of our common stock was \$34.50 per share and the total offering proceeds to us were \$130.3 million, net of underwriting discounts and commissions and other offering-related expenses of \$7.8 million.

We used the net proceeds from this common stock offering and cash available on hand to pay \$127.2 million of our 11½% notes and \$18.8 million of tender premiums and expenses. In addition, we retired \$353.8 million of the term loans outstanding under the old credit facility during the second quarter of fiscal year 2005, and entered into a credit facility of \$350.0 million on June 28, 2005. As a result of the debt retirement and terms of the credit facility, our interest expense has been reduced substantially compared to prior years. As a result of this debt retirement, we recognized a pre-tax charge of \$33.1 million, which consisted of tender/call premiums and expenses of \$19.4 million and the write-off of \$13.7 million in unamortized financing fees, issuance costs and debt discounts. In addition, during the first quarter of fiscal year 2005, we retired the remaining \$10.0 million in outstanding balance of our 12¼% notes. We also retired the entire outstanding balance of \$1.8 million of our 6½% debentures on August 15, 2005.

Cash flows used for financing activities of \$43.5 million during the year ended October 31, 2004 consisted primarily of the following activities:

- Net borrowings under the line of credit of \$5.3 million;
- Net payment of \$4.0 million of the term loans under the old credit facility with \$2.9 million payments of financing fees;
- Payment of \$23.1 million in capital lease obligation, notes payable (net of borrowings), and our 85/8% senior subordinated debentures;
- Payment of \$19.7 million in tender and call premiums on our 12¼% notes and our 11½% notes;
- Change in book overdrafts of \$30.0 million;
- Proceeds from the sale of common stock from the employee stock purchase plan and exercise of stock options of \$26.6 million; and
- Net proceeds generated from our public common stock offering of \$204.3 million, which was used to fund a majority of the payments of \$190.0 million on our 12¼% notes and \$70.0 million on our 11½% notes.

During fiscal year 2004, we sold an aggregate of 8.1 million shares of our common stock through an underwritten public offering. The offering price of our common stock was \$26.50 per share, and we received total offering proceeds of \$204.3 million, net of \$10.5 million in underwriting discounts and commissions and other offering-related expenses.

We used the net proceeds from this common stock offering plus the borrowings under our credit facility and cash available on hand to redeem \$70.0 million of our 11½% notes and \$190.0 million of our 12¼% notes. As a result of these redemptions, we recognized a pre-tax charge of \$28.2 million during our fiscal year 2004, consisting of the write-off of \$8.5 million in unamortized financing fees, debt issuance costs and debt discounts, and payments of \$19.7 million for call premiums.

The table below contains information about our contractual obligations and commercial commitments followed by narrative descriptions as of December 29, 2006:

Contractual Obligations	Total	Payments and Commitments Due by Period			
		Less Than			After 5
		1 Year	1–3 Years	4–5 Years	Years
(In thousands)					
As of December 29, 2006:					
Credit Facility:					
Term loan	\$ 114,000	\$ —	\$ 22,800	\$ 91,200	\$ —
Capital lease obligations	46,688	12,769	22,335	10,939	645
Notes payable, foreign credit lines and other indebtedness (1)	7,974	6,364	871	627	112
Total debt	168,662	19,133	46,006	102,766	757
Pension funding requirements (2)	126,881	14,293	32,690	20,155	59,743
Purchase obligations (3)	6,735	3,617	3,118	—	—
Interest (4)	33,140	10,634	16,574	5,904	28
Asset retirement obligations	4,303	182	564	1,148	2,409
Operating lease obligations (5)	444,538	95,589	157,389	106,393	85,167
Total contractual obligations	\$ 784,259	\$ 143,448	\$ 256,341	\$ 236,366	\$ 148,104

(1) Amounts shown exclude remaining original issue discounts of \$49 thousand for notes payable.

(2) These pension funding requirements for the EG&G pension plans, the Dames & Moore Final Salary Pension Fund in the United Kingdom, the Radian International, L.L.C. Supplemental Executive Retirement Plan and Salary Continuation Agreement, and the supplemental executive retirement plan (“SERP”) with our CEO are based on actuarially determined estimates and management assumptions. We are obligated to fund approximately \$11.5 million into a rabbi trust for our CEO’s SERP upon receiving a 15-day notice, his death or the termination of his employment for any reason.

(3) Purchase obligations consist primarily of software maintenance contracts.

(4) Interest for the next five years, which excludes non-cash interest, is determined based on the current outstanding balance of our debt and payment schedule at the estimated interest rate as of December 29, 2006.

(5) These operating leases are predominantly office and equipment leases.

Off-balance Sheet Arrangements. The following is a list of our off-balance sheet arrangements:

- As of December 29, 2006, we had a total outstanding balance of \$61.3 million in standby letters of credit under our credit facility. Letters of credit are used primarily to support insurance programs, bonding arrangements, and real estate leases. We are required to reimburse the issuers of letters of credit for any payments they make under the outstanding letters of credit. Our credit facility covers the issuance of our standby letters of credit and is critical for our normal operations. If we default on the credit facility, our ability to issue or renew standby letters of credit would impair our ability to maintain normal operations.
- We have guaranteed the credit facility of one of our joint ventures, in the event of a default by the joint venture. This joint venture was formed in the ordinary course of business to perform a contract for the federal government. The term of the guarantee is equal to the remaining term of the underlying credit facility, which will expire on September 30, 2007. The amount of the guarantee was \$9.5 million at December 29, 2006.

- During the year, we replaced letters of credit used to collateralize the credit facility of our UK operating subsidiary and bank guarantee lines of our European subsidiaries with a guarantee. As of December 29, 2006, the amount of the guarantee was \$9.7 million.
- From time to time, we have provided guarantees related to our services or work. If our services under a guaranteed project are later determined to have resulted in a material defect or other material deficiency, then we may be responsible for monetary damages or other legal remedies. When sufficient information about claims on guaranteed projects is available and monetary damages or other costs or losses are determined to be probable, we recognize such guarantee losses. Currently, we have no guarantee claims for which losses have been recognized.
- We have an agreement to indemnify one of our joint venture lenders up to \$25.0 million for any potential losses, damages, and liabilities associated with lawsuits in relation to general and administrative services we provide to the joint venture. Currently, we have no indemnified claims.

Credit Facility. Our senior credit facility (“Credit Facility”) consists of a 6-year term loan of \$350.0 million and a 5-year revolving line of credit of \$300.0 million, against which up to \$200.0 million is available for issuance of letters of credit. As of December 29, 2006, we had \$114.0 million outstanding under the term loan, \$61.3 million outstanding in letters of credit and no amount outstanding under the revolving line of credit.

Our Revolving Line of Credit is used to fund daily operating cash needs and to support our standby letters of credit. During the ordinary course of business, the use of our Revolving Line of Credit is a function of collection and disbursement activities. Our daily cash needs generally follow a predictable pattern that parallels our payroll cycles, which dictate, as necessary, our short term borrowing requirements.

Principal amounts under the term loan will become due and payable on a quarterly basis: 15% of the principal will be payable in four equal quarterly payments beginning in the third quarter of 2008, 20% of the principal will be due during the next four quarters, and 65% will be due in the final four quarters ending on June 28, 2011. Our Revolving Line of Credit expires and is payable in full on June 28, 2010. At our option, we may repay the loans under our Credit Facility without premium or penalty.

All loans outstanding under our Credit Facility bear interest at either LIBOR or the bank's base rate plus an applicable margin, at our option. The applicable margin will change based upon our credit rating as reported by Moody's Investor Services (“Moody's”) and Standard & Poor's. The LIBOR margin will range from 0.625% to 1.75% and the base rate margin will range from 0.0% to 0.75%. As of December 29, 2006 and December 30, 2005, the LIBOR margin was 1.00% for both the term loan and the Revolving Line of Credit. As of December 29, 2006 and December 30, 2005, the interest rates on our term loan were 6.36% and 5.53%, respectively.

A substantial number of our domestic subsidiaries are guarantors of the Credit Facility on a joint and several basis. Initially, the obligations are collateralized by our guarantors' capital stock. The collateralized obligations will be eliminated if we reach an investment grade credit rating of “Baa3” from Moody's and “BBB-” from Standard & Poor's; while our credit ratings have been upgraded since the inception of our Credit Facility, we have not yet achieved the investment grades necessary to eliminate the capital stock collateralization. If our credit rating were to fall to or below “Ba2” from Moody's or “BB” from Standard & Poor's, we would be required to provide a secured interest in substantially all of our existing and subsequently acquired personal and real property, in addition to the collateralized guarantors' capital stock. Although the capital stock of the non-guarantor subsidiaries are not required to be pledged as collateral, the terms of the Credit Facility restrict the non-guarantors' assets, with some exceptions, from being used as a pledge for future liens (a “negative pledge”). Moody's upgraded our credit rating from “Ba2” to “Ba1” on June 20, 2005. On July 26, 2005, Standard & Poor's upgraded our credit rating from “BB” to “BB+.” As of December 29, 2006, our Moody's and Standard and Poor's credit ratings were “Ba1” and BB+, respectively.

Our Credit Facility contains financial covenants. We are required to maintain: (a) a maximum ratio of total funded debt to total capital of 40% or less and (b) a minimum interest coverage ratio of not less than 3.0:1. The interest coverage ratio is calculated by dividing consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), as defined in our Credit Facility agreement, by consolidated cash interest expense.

The Credit Facility also contains customary events of default and customary affirmative and negative covenants, some of which are dependent upon our credit ratings and include, but are not limited to, limitations on mergers, consolidations, acquisitions, asset sales, restrictions against dividend payments, stock redemptions or repurchases, transactions with stockholders and affiliates, liens, capital leases, negative pledges, sale–leaseback transactions, indebtedness, contingent obligations and investments.

As of December 29, 2006, we were in compliance with all the covenants of the Credit Facility.

Revolving Line of Credit. Our revolving line of credit information is summarized as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(in millions, except percentages)			
Effective average interest rates paid on the revolving line of credit	7.6%	6.3%	5.9%	5.7%
Average daily revolving line of credit balances	\$ 0.4	\$ 2.4	\$ 1.6	\$ 22.7
Maximum amounts outstanding at any one point	\$ 21.8	\$ 22.8	\$ 18.0	\$ 74.6

11½% Senior Notes. On September 15, 2006, we redeemed and retired the outstanding amount of \$2.8 million of our 11½% Notes. As of December 30, 2005, we had \$2.8 million of 11½% Notes outstanding.

Notes Payable, Foreign Credit Lines and other indebtedness. As of December 29, 2006 and December 30, 2005, we had outstanding amounts of \$7.9 million and \$9.6 million, respectively, in notes payable and foreign lines of credit. Notes payable primarily include notes used to finance the purchase of office equipment, computer equipment and furniture. The weighted average interest rates of the notes were approximately 6.1% and 5.6% as of December 29, 2006 and December 30, 2005, respectively.

We maintain foreign lines of credit, which are collateralized by the assets of our foreign subsidiaries and letters of credit. As of December 29, 2006, we had \$13.8 million in lines of credit available under these facilities, with \$4.6 million outstanding. As of December 30, 2005, we had \$10.0 million in lines of credit available under these facilities, with no amounts outstanding. The interest rates were 6.2% and 6.6% as of December 29, 2006 and December 30, 2005, respectively.

Capital Leases. As of December 29, 2006 and December 30, 2005, we had \$46.7 million and \$36.2 million in obligations under our capital leases, respectively, consisting primarily of leases for office equipment, computer equipment and furniture.

Operating Leases. As of December 29, 2006 and December 30, 2005, we had approximately \$444.5 million and \$415.8 million, respectively, in obligations under our operating leases, consisting primarily of real estate leases.

Other Activities

Derivative Financial Instruments. We are exposed to risk of changes in interest rates as a result of borrowings under our Credit Facility. During fiscal year 2006 and 2005, we did not enter into any interest rate derivatives due to our assessment of the costs/benefits of interest rate hedging. However, we may enter into derivative financial instruments in the future depending on changes in interest rates.

Income Taxes

As of December 29, 2006, for federal income tax purposes, we had available a domestic net operating loss (“NOL”) of \$2.5 million. Utilization of the NOL is limited pursuant to Section 1503 of the Internal Revenue Code and will be utilized against the income of our insurance company subsidiary. This NOL will be carried forward and will expire in fiscal year 2022. We also have \$15.9 million of foreign NOLs available. Of this amount, \$1.2 million will expire at various dates between 2007 and 2021, while the remaining \$14.7 million will carry forward indefinitely. These foreign NOLs are available only to offset income earned in foreign jurisdictions. Further, we have \$11.8 million of state and local NOLs available. Of this amount, \$4.6 million will expire in 2007, while the remaining \$7.2 million will expire at various dates between 2008 and 2022.

Valuation allowances for deferred tax assets are established when necessary to reduce deferred tax assets to the amount expected to be realized. Based on expected future operating results, we believe that realization of deferred tax assets in excess of the valuation allowance is more likely than not.

As of December 29, 2006, undistributed earnings of our foreign operations totaling \$16.0 million were considered to be indefinitely reinvested outside of our home tax jurisdiction. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. pursuant to Accounting Principles Board Opinion No. 23, “*Accounting for Income Taxes – Special Areas*,” since it is our intention to utilize those earnings in the foreign operations. The determination of the amount of deferred taxes on these earnings is not practicable since the computation would depend on a number of factors that cannot be known unless a decision to repatriate the earnings is made.

See further discussion at Note 4, “Income Taxes” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and the related disclosures of contingent assets and liabilities at the date of financial statements, which are included in Item 8 of this report. Application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties based on information available to us as of the date of the financial statements. Consequently, our actual results could differ from our estimates. See Note 1, “Accounting Policies” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report.

Significant accounting policies that we believe are important to understanding our results of operations and financial positions are discussed below. Information regarding our other accounting policies is included under Item 8, “Consolidated Financial Statements and Supplementary Data,” of this report.

Revenue Recognition

Our revenues arise primarily from the professional and technical services performed by our employees or by the subcontractors we engage to perform on our behalf under contracts we enter into with our clients. The revenues we recognize, therefore, are derived from our ability to charge our clients for those services under our contracts. A more detailed discussion of our revenue recognition on contract types is included in Note 1, “Accounting Policies” to our “Consolidated Financial Statements and Supplementary Data” included under Item 8 of this report.

We enter into three major types of contracts: “cost-plus contracts,” “fixed-price contracts” and “time-and-materials contracts.” Within each of the major contract types are variations on the basic contract mechanism. Fixed-price contracts generally present us with the highest level of financial and performance risk, but often also provide the highest potential financial returns. Cost-plus contracts present us with lower risk, but generally provide lower returns and often include more onerous terms and conditions. Time-and-materials contracts generally represent the time spent by our professional staff at stated or negotiated billing rates.

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We account for our professional planning, design and various other types of engineering projects, including systems engineering, program management and construction management contracts on the “percentage-of-completion” method, wherein revenue is recognized as project progress occurs. Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance, evenly over the period or over units of production. If our estimate of costs at completion on any contract indicates that a loss will be incurred, we charge the entire estimated loss to operations in the period the loss becomes evident.

The use of the percentage-of-completion revenue recognition method requires us to make estimates and exercise judgment regarding the project's expected revenues, costs and the extent of progress towards completion. We have a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenue and contract completion costs on our long-term engineering and construction contracts. However, due to uncertainties inherent in the estimation process, it is possible that our completion costs may vary from our estimates.

Most of our percentage-of-completion projects follow the “cost-to-cost” method of determining the percentage of completion. Under the cost-to-cost method, we make periodic estimates of our progress towards project completion by analyzing costs incurred to date, plus an estimate of the amount of costs that we expect to incur until the completion of the project. Revenue is then calculated on a cumulative basis (project-to-date) as the total contract value multiplied by the current percentage of completion. The revenue for the current period is calculated as cumulative revenues less project revenues already recognized. The process of estimating costs on engineering and construction projects combines professional engineering, cost estimating, pricing and accounting skills. The recognition of revenues and profit is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, achievement of milestones and other incentives, penalty provisions, labor productivity and cost estimates. Such estimates are based on various judgments we make with respect to those factors and are difficult to accurately determine until the project is significantly underway.

For some contracts, using the cost-to-cost method in estimating the percentage of completion may overstate the progress on the project. For projects where the cost-to-cost method does not appropriately reflect the progress on the projects, we use alternative methods such as actual labor hours, for measuring progress on the project and recognize revenue accordingly. For instance, in a project where a large amount of permanent materials are purchased, including the costs of these materials in calculating the percentage of completion may overstate the actual progress on the project. For these types of projects, actual labor hours spent on the project may be a more appropriate measure of the progress on the project.

Once contract performance is underway, we may experience changes in conditions, client requirements, specifications, designs, materials and expectations regarding the period of performance. Such changes may be initiated by us or by our clients. The majority of such changes presents little or no financial risk to us. Generally, a “change order” will be negotiated between our client and ourselves to reflect how the change is to be resolved and who is responsible for the financial impact of the change. Occasionally, however, disagreements can arise regarding changes, their nature, measurement, timing and other characteristics that impact costs and, therefore, revenues. When a change becomes a point of dispute between our client and us, we then consider it as a claim.

Costs related to change orders and claims are recognized when they are incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in a bona fide addition to contract value and can be reliably estimated. Claims are included in total estimated contract revenues, only to the extent that contract costs related to the claims have been incurred and when it is probable that the claim will result in a bona fide addition to contract value which can be reliably estimated. No profit is recognized on claims until final settlement occurs. This can lead to a situation where costs are recognized in one period and revenues are recognized in a subsequent period when a client agreement is obtained or claims resolution occurs.

We have contracts with the U.S. government that contain provisions requiring compliance with the FAR, and the CAS. These regulations are generally applicable to all of our federal government contracts and are partially or fully incorporated in many local and state agency contracts. They limit the recovery of certain specified indirect costs on contracts subject to the FAR. Cost-plus contracts covered by the FAR provide for upward or downward adjustments if actual recoverable costs differ from the estimate billed under forward pricing arrangements. Most of our federal government contracts are subject to termination at the convenience of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

Federal government contracts are subject to the FAR and some state and local governmental agencies require audits, which are performed for the most part by the DCAA. The DCAA audits our overhead rates, cost proposals, incurred government contract costs, and internal control systems. During the course of its audits, the DCAA may question incurred costs if it believes we have accounted for such costs in a manner inconsistent with the requirements of the FAR or CAS and recommend that our U.S. government corporate administrative contracting officer disallow such costs. Historically, we have not experienced significant disallowances of incurred costs as a result of such audits. However, we can provide no assurance that the DCAA audits will not result in material disallowances of incurred costs in the future.

Goodwill

Statement of Financial Accounting Standards No. 142, “*Goodwill and Other Intangible Assets*” (“SFAS 142”), requires that we perform an assessment for impairment of goodwill and other intangible assets at least annually. Accordingly, we have completed our annual review of the recoverability of goodwill as of October 27, 2006, which indicated that we had no impairment of goodwill. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred which may indicate a possible impairment of goodwill.

We believe the methodology we use in testing for impairment of goodwill, which includes significant judgments and estimates, provides us with a reasonable basis for determining whether an impairment charge should be taken.

In evaluating whether there is an impairment of goodwill, we calculate the estimated fair value of our company by using a methodology that considers discounted projections of our cash flows and the fair values of our debt and equity.

We first determine our estimated projected cash flows and estimated residual values of each of our reporting units and discount those cash flows and residual values based on a selected discount rate (a discounted cash flows approach) to arrive at an estimated fair value of each reporting unit. The determination of our discount rate considers our cost of capital and the cost of capital of some of our industry peers. We then consider the average closing sales price of our common stock and the fair market value of our interest-bearing obligations to arrive at an estimate of fair value (a market multiple approach). Our final estimate of fair value is established considering our market multiple and discounted cash flows approaches.

We allocate our final estimate of fair value to our reporting units based on the relative proportion of each reporting unit's estimated discounted cash flows to the total. A reporting unit, as defined in SFAS 142, is an operating segment or a component of a segment where (a) the component constitutes a business for which discrete financial information is available, and (b) management regularly reviews the operating results of that component. Our reporting units consist of the EG&G Division, the domestic operations of the URS Division and the international operations of the URS Division.

We then compare the resulting fair values by reporting units to the respective net book values, including goodwill. If the net book value of a reporting unit exceeds its fair value, we measure the amount of the impairment loss by comparing the implied fair value (which is a reasonable estimate of the value of goodwill for the purpose of measuring an impairment loss) of the reporting unit's goodwill to the carrying amount of that goodwill. To the extent that the carrying amount of a reporting unit's goodwill exceeds its implied fair value, we recognize a goodwill impairment loss at that time. In evaluating whether there was an impairment of goodwill, we also take into consideration changes in our business mix and changes in our discounted cash flows, in addition to our average closing stock price.

We reduce our accounts receivable and costs and accrued earnings in excess of billings on contracts in process by establishing an allowance for amounts that, in the future, may become uncollectible or unrealizable, respectively. We determine our estimated allowance for uncollectible amounts based on management's judgments regarding our operating performance related to the adequacy of the services performed or products delivered, the status of change orders and claims, our experience settling change orders and claims and the financial condition of our clients, which may be dependent on the type of client and current economic conditions that the client may be subject to.

Deferred income taxes

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized in future operating results. Management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances, with the help of professional tax advisors. Therefore, we estimate and provide for amounts of additional income taxes that may be assessed by the various taxing authorities.

Other long-term liabilities

Included in other long-term liabilities are estimated liabilities related to defined benefit pension and postretirement benefit programs. These liabilities represent actuarially determined estimates of our future obligations associated with providing these benefit programs to some of our employees. The actuarial studies and estimates are dependent on assumptions made by management, which include discount rates, life expectancy of participants, long-term rates of return on plan assets, and rates of increase in compensation levels. These assumptions are determined based on the current economic environment at year-end.

Adopted and Other Recently Issued Statements of Financial Accounting Standards

We adopted SFAS 123(R) on December 31, 2005, the beginning of our 2006 fiscal year, using the modified prospective transition method, which requires measurement of compensation expense for all stock-based awards at fair value on the grant date and recognition of compensation over the service period for awards expected to vest. Upon adoption, our consolidated financial statements reflected the impact of SFAS 123(R), but in accordance with the modified prospective transition method, prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Our consolidated financial statements for the fiscal year ended December 29, 2006 include the tax effects of share-based payment awards as we concluded our assessment of impacts of FASB Staff Position No. SFAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards" ("SFAS 123(R)-3") in connection with the completion of our financial statements. Under the provisions of SFAS 123(R)-3, we elected to adopt the alternative method of 1) calculating the historical pool of windfall tax benefits and 2) accounting for the tax effects of stock compensation in the results of operations and cash flow reporting for awards that were outstanding as of the adoption of SFAS 123(R).

In June 2006, the FASB issued FIN 48, which prescribes a recognition threshold and measurement process for recording, as liabilities in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on recognition or de-recognition and measurement and classification of such liabilities; accruals of interest and penalties; accounting for changes in judgment in interim periods; and disclosure requirements for uncertain tax positions. The provisions of FIN 48 will be effective for us at the beginning fiscal year 2007. FIN 48 requires that the cumulative effect of applying the interpretation is to be reported as an adjustment to the beginning balance of retained earnings as of December 30, 2006. We anticipate the effect to our balance sheet as of December 30, 2006 to be immaterial.

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In September 2006, the FASB issued SFAS No. 157 "*Fair Value Measurement*," ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. It is effective for us beginning in fiscal year 2008. We are currently in the process of determining the effect that the adoption of this statement will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS 158. This statement requires (1) recognition on the balance sheet of an asset for a defined benefit plan's overfunded status or a liability for a plan's underfunded status, (2) measurement of a defined benefit plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (3) recognition as a component of other comprehensive income the changes in a defined benefit plan's funded status that are not recognized as components of net periodic benefit cost.

The requirement to recognize the funded status of a defined benefit plan and the disclosure requirements is effective for us at this fiscal year ended December 29, 2006. The requirement to measure the defined benefit plan assets and benefit obligations as of the date of the employer's fiscal year-end will be effective for us for the fiscal year ending in December 2008.

We adopted the recognition provisions of SFAS 158 on December 29, 2006. Adoption of SFAS 158 has no impact on our loan covenants. A more detailed discussion of the incremental effect of the provisions of SFAS 158 is included in Note 10, "Employee Retirement and Post-Retirement Medical Plans" to our "Consolidated Financial Statements and Supplementary Data" included under Item 8 of this report.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB 108"). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related financial statement disclosure using both the "rollover" approach and the "iron curtain" approach, either of which was previously acceptable.

We adopted SAB 108 on the effective date, December 29, 2006, and it had no effect on our financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

We are exposed to changes in interest rates as a result of our borrowings under our Credit Facility. Based on outstanding indebtedness of \$114.0 million under our Credit Facility at December 29, 2006, if market rates average 1% higher in the next twelve months, our net of tax interest expense would increase by approximately \$0.7 million. Conversely, if market rates average 1% lower in the next twelve months, our net of tax interest expense would decrease by approximately \$0.7 million.

Foreign currency risk

The majority of our transactions are in U.S. dollars; however, our foreign subsidiaries conduct businesses in various foreign currencies. Therefore, we are subject to currency exposures and volatility because of currency fluctuations, inflation changes and economic conditions in these countries. We attempt to minimize our exposure to foreign currency fluctuations by matching our revenues and expenses in the same currency for our contracts. We had \$4.1 million of foreign currency translation gains for the year ended December 29, 2006 and \$5.9 million of foreign currency translation losses for the year ended December 30, 2005. The currency exposure is not material to our consolidated financial statements.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of URS Corporation:

We have completed integrated audits of URS Corporation's 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of December 29, 2006 and audits of its consolidated financial statements for the fiscal year ended October 31, 2004 and for the two-month period ended December 31, 2004, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of URS Corporation and its subsidiaries (the "Company") at December 29, 2006 and December 30, 2005, and the results of their operations and their cash flows for each of the years ended December 29, 2006, December 30, 2005, and October 31, 2004 and the two-month period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, Note 9 and Note 10 to the consolidated financial statements, in 2006 the Company adopted new accounting standards that required it change the manner in which it accounts for share-based compensation and the manner in which it accounts for defined benefit pension and other postretirement plans.

Internal Control over Financial Reporting

Also, in our opinion, management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 29, 2006 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2006, based on criteria established in Internal Control – Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 26, 2007

URS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 29, 2006	December 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents, including \$44,557 and \$61,319 of short-term money market funds, respectively	\$ 89,502	\$ 101,545
Accounts receivable, including retainage of \$37,368 and \$37,280, respectively	680,631	630,340
Costs and accrued earnings in excess of billings on contracts in process	552,526	513,943
Less receivable allowances	(50,458)	(44,293)
Net accounts receivable	1,182,699	1,099,990
Deferred tax assets	36,547	18,676
Prepaid expenses and other assets	65,405	52,849
Total current assets	1,374,153	1,273,060
Property and equipment at cost, net	163,142	146,470
Goodwill	989,111	986,631
Purchased intangible assets, net	3,839	5,379
Other assets	50,784	57,908
	\$ 2,581,029	\$ 2,469,448
LIABILITIES, MINORITY INTEREST, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Book overdrafts	\$ 3,334	\$ 1,547
Current portion of long-term debt	19,120	20,647
Accounts payable and subcontractors payable, including retainage of \$19,515 and \$13,323, respectively	290,651	288,561
Accrued salaries and wages	230,905	196,825
Accrued expenses and other	73,704	82,404
Billings in excess of costs and accrued earnings on contracts in process	168,271	108,637
Total current liabilities	785,985	698,621
Long-term debt	149,494	297,913
Deferred tax liabilities	17,808	19,785
Other long-term liabilities	117,586	108,625
Total liabilities	1,070,873	1,124,944
Commitments and contingencies (Note 8)		
Minority interest	3,469	---
Stockholders' equity:		
Preferred stock, authorized 3,000 shares; no shares outstanding	---	---
Common shares, par value \$.01; authorized 100,000 shares; 52,309 and 50,432 shares issued, respectively; and 52,257 and 50,380 shares outstanding, respectively	523	504
Treasury stock, 52 shares at cost	(287)	(287)
Additional paid-in capital	973,892	925,087
Accumulated other comprehensive income (loss)	(3,638)	(3,985)
Retained earnings	536,197	423,185
Total stockholders' equity	1,506,687	1,344,504
	\$ 2,581,029	\$ 2,469,448

See Notes to Consolidated Financial Statements

URS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share data)

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
Revenues	\$ 4,240,150	\$ 3,917,565	\$ 566,997	\$ 3,381,963
Direct operating expenses	2,737,828	2,555,538	369,527	2,140,890
Gross profit	1,502,322	1,362,027	197,470	1,241,073
Indirect, general and administrative expenses	1,283,533	1,187,605	188,400	1,079,088
Operating income	218,789	174,422	9,070	161,985
Interest expense	19,740	31,587	6,787	60,741
Income before income taxes and minority interest	199,049	142,835	2,283	101,244
Income tax expense	84,793	60,360	1,120	39,540
Minority interest in income of consolidated subsidiaries, net of tax	1,244	—	—	—
Net income	113,012	82,475	1,163	61,704
Other comprehensive income (loss):				
Pension liability adjustments, net of tax (benefit)	582	(4,493)	4,141	(2,189)
Foreign currency translation adjustments	4,122	(5,910)	1,882	3,490
Comprehensive income	\$ 117,716	\$ 72,072	\$ 7,186	\$ 63,005
Earnings per share (Note 1):				
Basic	\$ 2.23	\$ 1.76	\$.03	\$ 1.58
Diluted	\$ 2.19	\$ 1.72	\$.03	\$ 1.53
Weighted-average shares outstanding (Note 1):				
Basic	50,705	46,742	43,643	39,123
Diluted	51,652	47,826	45,313	40,354

See Notes to Consolidated Financial Statements

URS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balances, October 31, 2003	33,602	\$ 336	\$ (287)	\$ 487,824	\$ (906)	\$ 278,106	\$ 765,073
Employee stock purchases and exercise of stock options	1,538	15	—	26,609	—	—	26,624
Stock-based compensation	300	3	—	4,116	—	—	4,119
Tax benefit of stock-based compensation	—	—	—	4,117	—	—	4,117
Issuance of common shares	8,102	81	—	204,205	—	—	204,286
Quasi-reorganization NOL carryforward	—	—	—	263	—	(263)	—
Minimum pension liability adjustments, net of tax benefit of \$1,829	—	—	—	—	(2,189)	—	(2,189)
Foreign currency translation adjustments	—	—	—	—	3,490	—	3,490
Net income	—	—	—	—	—	61,704	61,704
Balances, October 31, 2004	43,542	435	(287)	727,134	395	339,547	1,067,224
Employee stock purchases and exercise of stock options	244	3	—	5,185	—	—	5,188
Stock-based compensation	—	—	—	1,058	—	—	1,058
Tax benefit of stock-based compensation	—	—	—	1,465	—	—	1,465
Minimum pension liability adjustments, net of tax of \$2,670	—	—	—	—	4,141	—	4,141
Foreign currency translation adjustments	—	—	—	—	1,882	—	1,882
Net income	—	—	—	—	—	1,163	1,163
Balances, December 31, 2004	43,786	438	(287)	734,842	6,418	340,710	1,082,121
Employee stock purchases and exercise of stock options	2,268	23	—	38,920	—	—	38,943
Stock-based compensation	326	3	—	6,145	—	—	6,148
Tax benefit of stock-based compensation	—	—	—	14,969	—	—	14,969
Issuance of common shares	4,000	40	—	130,211	—	—	130,251
Minimum pension liability adjustments, net of tax benefit of \$4,769	—	—	—	—	(4,493)	—	(4,493)
Foreign currency translation adjustments	—	—	—	—	(5,910)	—	(5,910)
Net income	—	—	—	—	—	82,475	82,475
Balances, December 30, 2005	50,380	504	(287)	925,087	(3,985)	423,185	1,344,504
Employee stock purchases and exercise of stock options	948	10	—	23,964	—	—	23,974
Stock-based compensation	929	9	—	18,386	—	—	18,395
Tax benefit of stock-based compensation	—	—	—	6,455	—	—	6,455
Minimum pension liability adjustments, net of tax of \$3,945	—	—	—	—	582	—	582
Adoption of FASB Statement No. 158, net of tax benefit of \$2,725	—	—	—	—	(4,357)	—	(4,357)
Foreign currency translation adjustments	—	—	—	—	4,122	—	4,122
Net income	—	—	—	—	—	113,012	113,012
Balances, December 29, 2006	52,257	\$ 523	\$ (287)	\$ 973,892	\$ (3,638)	\$ 536,197	\$ 1,506,687

See Notes to Consolidated Financial Statements

URS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
Cash flows from operating activities:				
Net income	\$ 113,012	\$ 82,475	\$ 1,163	\$ 61,704
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	37,980	38,548	6,909	41,407
Amortization of debt issuance costs	1,821	3,777	978	6,772
Costs incurred for extinguishment of debt	162	33,131	—	28,165
Provision for doubtful accounts	8,259	10,094	2,673	14,777
Deferred income taxes	(8,708)	8,721	827	(4,746)
Stock-based compensation	18,395	6,148	1,058	4,119
Excess tax benefits from stock-based compensation	(6,045)	—	—	—
Tax benefit of stock compensation	6,455	14,969	1,465	4,117
Minority interest in net income of consolidated subsidiaries	1,244	—	—	—
Changes in assets and liabilities:				
Accounts receivable and costs and accrued earnings in excess of billings on contracts in process	(89,628)	(161,632)	7,713	(80,646)
Prepaid expenses and other assets	(12,378)	(30,441)	(4,321)	1,553
Accounts payable, accrued salaries and wages and accrued expenses	26,792	179,525	(16,359)	23,618
Billings in excess of costs and accrued earnings on contracts in process	59,614	22,453	4,919	(3,528)
Distributions of earnings from unconsolidated affiliates, net	26,562	12,394	4,223	8,564
Other long-term liabilities	(2,190)	10,842	2,174	(882)
Other assets, net	(16,341)	(30,567)	1,577	(9,474)
Total adjustments and changes	51,994	117,962	13,836	33,816
Net cash from operating activities	165,006	200,437	14,999	95,520
Cash flows from investing activities:				
Net payment for business acquisitions, net of cash acquired	(5,028)	(1,367)	—	—
Proceeds from disposal of property and equipment	—	2,236	—	—
Capital expenditures, less equipment purchased through capital leases	(29,314)	(23,010)	(1,597)	(19,016)
Net cash from investing activities	(34,342)	(22,141)	(1,597)	(19,016)
Cash flows from financing activities:				
Long-term debt principal payments	(163,317)	(578,131)	(990)	(298,950)
Long-term debt borrowings	552	351,410	21	26,526
Net borrowings (payments) under lines of credit and short-term notes	1,433	(20,502)	14,254	5,209
Net change in book overdrafts	1,787	(69,324)	10,589	30,011
Capital lease obligation payments	(13,019)	(13,354)	(3,724)	(14,643)
Excess tax benefits from stock-based compensation	6,045	—	—	—
Proceeds from common stock offering, net of related expenses	—	130,251	—	204,286
Proceeds from employee stock purchases and exercise of stock options	23,974	38,942	5,188	26,624
Tender and call premiums paid for debt extinguishment	(162)	(19,426)	—	(19,688)
Payment of debt issuance costs	—	(4,624)	—	(2,887)
Net cash from financing activities	(142,707)	(184,758)	25,338	(43,512)
Net increase (decrease) in cash and cash equivalents	(12,043)	(6,462)	38,740	32,992
Cash and cash equivalents at beginning of year	101,545	108,007	69,267	36,275
Cash and cash equivalents at end of year	\$ 89,502	\$ 101,545	\$ 108,007	\$ 69,267

URS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands)

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
Supplemental information:				
Interest paid	\$ 17,099	\$ 29,974	\$ 4,982	\$ 66,629
Taxes paid	\$ 58,583	\$ 48,422	\$ 10,217	\$ 36,797
Equipment acquired with capital lease obligations	\$ 23,512	\$ 20,270	\$ 3,541	\$ 11,098
Supplemental schedule of noncash investing and financing activities:				
Fair value of assets acquired (net of cash acquired)	\$ 7,683	\$ 1,823	\$ —	\$ —
Liabilities assumed	2,655	456	\$ —	\$ —
Net payment for business acquisitions, net of cash acquired	\$ 5,028	\$ 1,367	\$ —	\$ —

See Notes to Consolidated Financial Statements

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

Business

The terms “we,” “us,” and “our” used in these financial statements refer to URS Corporation and its consolidated subsidiaries unless otherwise indicated. We operate through two divisions: the URS Division and the EG&G Division. We offer a comprehensive range of professional planning and design, systems engineering and technical assistance, program management, construction management, and operations and maintenance services for transportation, facilities, environmental, homeland security, defense systems, installations and logistics, industrial infrastructure and process, and water/wastewater treatment projects. Headquartered in San Francisco, we operate in more than 20 countries with approximately 29,300 employees providing services to federal, state and local governments, and private industry clients in the United States and abroad.

Effective January 1, 2005, we adopted a 52/53 week fiscal year ending on the Friday closest to December 31st, with interim quarters ending on the Fridays closest to March 31st, June 30th and September 30th. We filed a transition report on Form 10-Q with the Securities and Exchange Commission (“SEC”) for the two months ended December 31, 2004. Our 2006 fiscal year began on December 31, 2005 and ended on December 29, 2006.

Principles of Consolidation and Basis of Presentation

Our financial statements include the financial position, results of operations and cash flows of URS Corporation and our wholly-owned subsidiaries and joint ventures required to be consolidated under Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), “*Consolidation of Variable Interest Entities*” (“FIN 46-R”). We participate in joint ventures formed for the purpose of bidding, negotiating and executing projects. Sometimes we function as the sponsor or manager of the projects performed by the joint venture. Investments in unconsolidated joint ventures are accounted for using the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles necessarily requires us to make estimates and assumptions that affect the reported amount of assets and liabilities and related disclosures at the balance sheet dates, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, we review our estimates based on information that is currently available. Changes in facts and circumstances may cause us to revise our estimate.

Revenue Recognition

We earn our revenues from cost-plus, fixed-price and time-and-materials contracts. If estimated total costs on any contract indicate a loss, we charge the entire estimated loss to operations in the period the loss becomes known. The cumulative effect of revisions to revenue, estimated costs to complete contracts, including penalties, incentive awards, change orders, claims, anticipated losses, and others are recorded in the accounting period in which the events indicating a loss or change in estimates are known and the loss can be reasonably estimated. Such revisions could occur at any time and the effects may be material.

The majority of our contracts are for professional planning, design and various other types of engineering projects, including systems engineering, program management, and construction management. We account for such contracts on the “percentage-of-completion” method, wherein revenue is recognized as costs are incurred. Under the percentage-of-completion method of revenue recognition, we estimate the progress towards completion to determine the amount of revenue and profit to recognize. We generally utilize a cost-to-cost approach in applying the percentage-of-completion method, where revenue is earned in proportion to total costs incurred, divided by total costs expected to be incurred.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For some contracts, using the cost-to-cost method in estimating percentage-of-completion may overstate the progress on the project. For instance, in a project where a large amount of permanent materials are purchased, including the costs of these materials in calculating the percentage-of-completion may overstate the actual progress on the project. For projects where the cost-to-cost method does not appropriately reflect the progress on the projects, we use alternative methods for measuring progress on the project and recognize revenue accordingly.

Many of our professional engineering contracts cover multiple years; however, a large number of them begin and end within a year's time.

Under the percentage-of-completion method, recognition of profit is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, achievement of milestones, incentives, penalty provisions, labor productivity, cost estimates and others. Such estimates are based on various professional judgments we make with respect to those factors and are subject to change as the project proceeds and new information becomes available. Occasionally, we defer the recognition of revenue in excess of costs incurred until we are able to adequately estimate project results.

We have a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenue and contract completion costs on our long-term engineering and construction contracts. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates.

Cost-Plus Contracts. We have four major types of cost-plus contracts:

- **Cost-Plus Fixed Fee.** Under cost-plus fixed fee contracts, we charge our clients for our costs, including both direct and indirect costs, plus a fixed negotiated fee. In negotiating a cost-plus fixed fee contract, we estimate all recoverable direct and indirect costs and then add a fixed profit component. The total estimated cost plus the negotiated fee represents the total contract value. We recognize revenues based on the costs resulting from actual hours of labor effort expended at per-hour labor rates determined using a labor dollar multiplier that includes direct labor costs, allocable overhead costs and a component for the fixed negotiated fee. Direct non-labor costs are charged based on the direct non-labor costs we incur plus any mark-up permitted under the contract.

We invoice for our services as revenues are recognized or in accordance with agreed-upon billing schedules. Aggregate revenues from cost-plus fixed fee contracts may vary based on the actual number of labor hours worked and other actual contract costs incurred. However, if actual labor hours and other contract costs exceed the original estimate agreed to by our client, we generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive additional revenues relating to the additional costs (see "Change Orders and Claims").

- **Cost-Plus Fixed Rate.** Under our cost-plus fixed rate contracts, we charge clients for our costs plus negotiated rates based on our indirect costs. In negotiating a cost-plus fixed rate contract, we estimate all recoverable direct and indirect costs and then add a profit component, which is a percentage of total recoverable costs to arrive at a total dollar estimate for the project. We recognize revenues based on costs resulting from actual hours of labor effort expended at per-hour labor rates determined using a labor dollar multiplier that includes direct labor costs, allocable overhead costs and a component for the fixed rate. Direct non-labor costs are charged based on the direct non-labor costs we incur plus any mark-up permitted under the contract. Similar to cost-plus fixed fee contracts, aggregate revenues from cost-plus fixed rate contracts may vary and we generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive additional revenues relating to any additional costs that exceed the original contract estimate (see "Change Orders and Claims").

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- **Cost-Plus Award Fee.** Some cost-plus contracts provide for award fees or a penalty based on performance criteria in lieu of a fixed fee or fixed rate. Other contracts include a base fee component plus a performance-based award fee. In addition, we may share award fees with subcontractors and/or our employees. We record accruals for fee sharing on a monthly basis as related award fee revenue is earned. We generally recognize revenues to the extent of costs actually incurred plus a proportionate amount of the fee expected to be earned. We take the award fee or penalty on contracts into consideration when estimating sales and profit rates, and we record revenues related to the award fees when there is sufficient information to assess anticipated contract performance. On contracts that represent higher than normal risk or technical difficulty, we defer all award fees until an award fee letter is received. Once an award letter is received, the estimated or accrued fees are adjusted to the actual award amount.
- **Cost-Plus Incentive Fee.** Some of our cost-plus contracts provide for incentive fees based on performance against contractual milestones. The amount of the incentive fees varies, depending on whether we achieve above-, at-, or below-target results. We recognize revenues on these contracts assuming that we will achieve at-target results, unless we estimate our cost at completion to be significantly above or below target. If our estimated cost to complete the project indicates that our performance is, or will be, below target, we adjust our revenues down to the below-target estimate. If our estimate to complete the project indicates that our performance is above target, we do not adjust our revenues up to correspond with our estimated higher level of performance unless authorization to recognize additional revenues is obtained from appropriate levels of management.

Labor costs and subcontractor services are the principal components of our direct costs on cost-plus contracts, although some include materials and other direct costs. Some of these contracts include a provision that the total actual costs plus the fee will not exceed a guaranteed price negotiated with the client. Others include rate ceilings that limit the reimbursement for general and administrative costs, overhead costs and materials handling costs. The accounting for these contracts appropriately reflects such guaranteed price or rate ceilings. Some of our cost-plus contracts are subject to maximum contract values and accordingly, revenues relating to these contracts are recognized as if these contracts were fixed-price contracts.

Time-and-Materials Contracts. Under our time-and-materials contracts, we negotiate hourly billing rates and charge our clients based on the actual time that we spend on a project. In addition, clients reimburse us for our actual out-of-pocket costs of materials and other direct incidental expenditures that we incur in connection with our performance under the contract. Our profit margins on time-and-materials contracts fluctuate based on actual labor and overhead costs that we incurred compared with negotiated billing rates. The majority of our time-and-material contracts are subject to maximum contract values and, accordingly, revenues under these contracts are recognized under the percentage-of-completion method. Revenues on contracts that are not subject to maximum contract values are recognized based on the actual number of hours we spend on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that we incur on the projects. Our time-and-materials contracts also generally include annual billing rate adjustment provisions. We recognize revenues on time-and-materials contracts based on the actual hours of labor effort expended at per-hour labor rates determined using a labor dollar multiplier that includes direct labor costs, allocable overhead costs and a component for the fixed rate. Direct non-labor costs are charged based on the direct non-labor costs we incur plus any mark-up permitted under the contract.

Fixed-Price Contracts. We enter into two major types of fixed-price contracts:

- **Firm Fixed-Price (“FFP”).** Under FFP contracts, our clients pay us an agreed fixed-amount negotiated in advance for a specified scope of work. We recognize revenues on FFP contracts using the percentage-of-completion method described above. Prior to completion, our recognized profit margins on any FFP contract depend on the accuracy of our estimates and will increase to the extent that our current estimates of aggregate actual costs are below amounts previously estimated. Conversely, if our current estimated costs exceed prior estimates, our profit margins will decrease and we may realize a loss on a project. In order to increase aggregate revenue on the contract, we generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive payment for the additional costs (see “Change Orders and Claims”).

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- **Fixed-Price Per Unit (“FPPU”).** Under our FPPU contracts, clients pay us a set fee for each service or production transaction that we complete. We are generally guaranteed a minimum number of service or production transactions at a fixed price, but our actual profit margins on any FPPU contract depend on the number of service transactions we ultimately complete. We recognize revenues under FPPU contracts as we complete the related service transactions for our clients. If our current estimates of the aggregate average costs per service transaction turn out to exceed our prior estimates, our profit margins will decrease and we may realize a loss on the project. In order to increase aggregate revenues on a contract, we generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive payment for the additional costs (see “Change Orders and Claims”). Some of our FPPU contracts are subject to maximum contract values and accordingly, revenues relating to these contracts are recognized as if these contracts were FFP contracts.

Service contracts. In addition to the contract types described above, we perform service contracts, providing operations and maintenance services and a variety of technical assistance services. Our service contracts are accounted for on the “proportional performance” method, wherein revenue is recognized in proportion to the number of service activities performed, in proportion to the direct costs of performing the service activities, or evenly across the period of performance depending upon the nature of the services provided.

Change Orders and Claims. Change orders and/or claims may arise under any of the contract types previously described. Change orders are modifications of an original contract that effectively change the provisions of the contract without adding new provisions. Either we or our customer may initiate change orders. They may include changes in specifications or design, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Claims are amounts in excess of agreed contract price that we seek to collect from our clients or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs.

Change orders and claims occur when changes are experienced once contract performance is underway. Change orders are sometimes documented and terms of such change orders agreed with the client before the work is performed. Sometimes circumstances require that work progresses without client agreement before the work is performed. Costs related to change orders and claims are recognized when they are incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in a bona fide addition to contract value that can be reliably estimated. Revenue recognized from change orders may exceed the related costs incurred.

Claims are included in total estimated contract revenues when the contract or other evidence provides a legal basis for the claim, when the additional costs are caused by circumstances that were unforeseen at the contract date and are not the result of the deficiencies in the contract performance, when the costs associated with the claim are identifiable, and when the evidence supporting the claim is objective and verifiable. Revenue on claims is recognized only to the extent that contract costs related to the claims have been incurred and when it is probable that the claim will result in a bona fide addition to contract value which can be reliably estimated. No profit is recognized on claims until final settlement occurs. This can lead to a situation where costs are recognized in one period and revenues are recognized when client agreement is obtained or claims resolution occurs, which can be in subsequent periods.

Compliance Requirements. We have contracts with the U.S. federal government that contain provisions requiring compliance with the U.S. Federal Acquisition Regulation (“FAR”), and the U.S. Cost Accounting Standards (“CAS”). These regulations are generally applicable to all of our U.S. federal government contracts and are partially or fully incorporated in many state and local agency contracts. They limit the recovery of specified indirect costs on contracts subject to the FAR. Cost-plus contracts covered by the FAR provide for upward or downward adjustments if actual recoverable costs differ from the estimate billed under forward pricing arrangements. Most of our federal government contracts are subject to termination at the convenience of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Federal government contracts subject to the FAR and some state and local governmental agencies require audits, which are performed for the most part by the Defense Contract Audit Agency (“DCAA”). The DCAA audits our overhead rates, cost proposals, incurred government contract costs, and internal control systems. During the course of its audits, the DCAA may question incurred costs if it believes we have accounted for such costs in a manner inconsistent with the requirements of the FAR or CAS and recommend that our U.S. federal government corporate administrative contracting officer disallow such costs. We can provide no assurance that the DCAA audits will not result in material disallowances of incurred costs in the future.

Costs and Accrued Earnings in Excess of Billings on Contracts in Process and Billings in Excess of Costs and Accrued Earnings on Contracts in Process

Costs and accrued earnings in excess of billings on contracts in process in the accompanying consolidated balance sheets represent unbilled amounts earned and reimbursable under contracts in progress. As of December 29, 2006 and December 30, 2005, costs and accrued earnings in excess of billings on contracts in progress were \$552.5 million and \$513.9 million, respectively. These amounts become billable according to the contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. Generally, such unbilled amounts will be billed and collected over the next 12 months.

Billings in excess of costs and accrued earnings on contracts in process in the accompanying consolidated balance sheets represent cash collected from clients and advanced billings to clients on contracts in advance of work performed. As of December 29, 2006 and December 30, 2005, billings in excess of costs and accrued earnings on contracts in process were \$168.3 million and \$108.6 million, respectively. We believe that the majority of such amounts will be earned over the next 12 months.

Receivable Allowances

We reduce our accounts receivable and costs and accrued earnings in excess of billings on contracts in process by estimating an allowance for amounts that may become uncollectible or unrealizable in the future. We determine our estimated allowance for uncollectible amounts based on management's judgments regarding our operating performance related to the adequacy of the services performed or products delivered, the status of change orders and claims, our experience settling change orders and claims and the financial condition of our clients, which may be dependent on the type of client and current economic conditions that the client may be subject to.

Classification of Current Assets and Liabilities

We include in current assets and liabilities amounts realizable and payable under engineering and construction contracts that extend beyond one year. Accounts receivable, accounts receivable – retainage, costs and accrued earnings in excess of billings on contracts in process, subcontractors payable, subcontractor retainage, and billings in excess of costs and accrued earnings on contracts in process each contain amounts that, depending on contract performance, resolution of U.S. government contract audits, negotiations, change orders, claims or changes in facts and circumstances, may either be uncollected or may not require payment within one year.

Accounts receivable – retainage represents amounts billed to clients for services performed that, by the underlying contract terms, will not be paid until the projects meet contractual milestones are at or near completion. Correspondingly, subcontractors payable – retainage represents amounts billed to us by subcontractors for services performed that, by their underlying contract terms do not require payment by us until the projects are at or near completion.

Accounts payable and subcontractors payable include our estimate of incurred but unbilled subcontractor costs.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Concentrations of Credit Risk

Our accounts receivable and costs and accrued earnings in excess of billings on contracts in process are potentially subject to concentrations of credit risk. Our credit risk on accounts receivable is limited due to the large number of contracts for clients that comprise our customer base and their dispersion across different business and geographic areas. We estimate and maintain an allowance for potential uncollectible accounts and such estimates have historically been within management's expectations. Our cash and cash equivalents balances are maintained in accounts held by major banks and financial institutions located primarily in the United States, Europe and Asia Pacific.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturities of 90 days or less at the date of purchase. At December 29, 2006 and December 30, 2005, we had book overdrafts for some of our disbursement accounts. These overdrafts represented transactions that had not cleared the bank accounts at the end of the reporting period. We transferred cash on an as-needed basis to fund these items as they cleared the bank in subsequent periods.

At December 29, 2006 and December 30, 2005, cash and cash equivalents included \$38.7 million and \$43.5 million held by our consolidated joint ventures.

Fair Value of Financial Instruments

At December 29, 2006 and December 30, 2005, the carrying amounts of some of our financial instruments including cash, accounts receivable and accounts payable approximated fair values due to their short maturities. The fair values of our Credit Facility and other variable rate debt are based on current interest rates and approximate fair values. The fair values of our long-term debt obligations approximated the carrying values as disclosed in Note 5, "Current and Long-Term Debt."

Property and Equipment

Property and equipment are stated at cost. In the year assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is reflected in the Consolidated Statement of Operations and Comprehensive Income. Depreciation is provided on the straight-line and the double declining methods using estimated useful lives less residual value. Leasehold improvements are amortized over the length of the lease or estimated useful life, whichever is less. We capitalize our repairs and maintenance that extend the estimated useful lives of property and equipment; otherwise, repairs and maintenance are expensed. Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, we compare the carrying value to the fair value and recognize the difference as an impairment loss.

Internal-Use Computer Software

We expense or capitalize charges associated with development of internal-use software as follows:

Preliminary project stage: Both internal and external costs incurred during this stage are expensed as incurred.

Application development stage: Both internal and external costs incurred to purchase and develop computer software are capitalized after the preliminary project stage is completed and management authorizes the computer software project. However, training costs and the process of data conversion from the old system to the new system, which includes purging or cleansing of existing data, reconciliation or balancing of old data to the converted data in the new system, are expensed as incurred.

Post-Implementation/Operation Stage: All training costs and maintenance costs incurred during this stage are expensed as incurred.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Costs of upgrades and enhancements are capitalized if the expenditures will result in adding functionality to the software. Capitalized software costs are depreciated using the straight-line method over the estimated useful life of the related software, which may be up to ten years. Impairment is measured and recognized in accordance with the Statement of Financial Accounting Standards No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*.”

Goodwill

Statement of Financial Accounting Standards No. 142, “*Goodwill and Other Intangible Assets*” (“SFAS 142”) requires an assessment for impairment of goodwill at least annually. In addition to our annual test, we regularly evaluate whether events or circumstances have occurred which may indicate a possible impairment of goodwill.

We believe the methodology we use in testing impairment of goodwill, which includes significant judgments and estimates, provides us with a reasonable basis in determining whether an impairment charge should be taken. Our methodology is as follows:

In evaluating whether there is an impairment of goodwill, we calculate the estimated fair value of our company by using a methodology that considers discounted projections of our cash flows and the estimated fair values of our debt and the fair market value of our equity.

We first determine our estimated projected cash flows and estimated residual values of each of our reporting units and discount those cash flows and residual values based on a selected discount rate (a discounted cash flows approach) to arrive at an estimated fair value of each reporting unit. The determination of our discount rate considers our cost of capital and the cost of capital of some of our industry peers. We then consider the average closing sales price of our common stock over the 30-day period ending October 27, 2006 and the fair value of our interest-bearing obligations to arrive at an estimate of fair value (a market multiple approach). Our final estimate of fair value is established considering our market multiple and discounted cash flows approaches.

We allocate our final estimate of fair value to our reporting units based on the relative proportion of each reporting unit's estimated discounted cash flows to the total. A reporting unit, as defined in SFAS 142, is an operating segment or a component of a segment where (a) the component constitutes a business for which discrete financial information is available, and (b) management regularly reviews the operating results of that component. Our reporting units consist of the EG&G Division, the domestic operations of the URS Division and the international operations of the URS Division.

We then compare the resulting fair values by reporting units to the respective net book values, including goodwill. If the net book value of a reporting unit exceeds its fair value, we measure the amount of the impairment loss by comparing the implied fair value (which is a reasonable estimate of the value of goodwill for the purpose of measuring an impairment loss) of the reporting unit's goodwill to the carrying amount of that goodwill. To the extent that the carrying amount of a reporting unit's goodwill exceeds its implied fair value, we recognize a goodwill impairment loss at that time. In evaluating whether there was an impairment of goodwill, we also take into consideration changes in our business mix and changes in our discounted cash flows, in addition to our average closing stock price. Based on our annual review of goodwill by using the above described methodology at October 27, 2006, we concluded that we did not have any impairment of goodwill.

Purchased Intangible Assets

We amortize our purchased intangible assets using the straight-line method over their contractual or economic lives.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT – (Continued)

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, “*Accounting for Income Taxes*.” Judgment is required in determining our consolidated income tax expense. In the normal course of our business, we may engage in numerous transactions for which the ultimate tax outcome (including the period in which the transaction will ultimately be included in taxable income or deducted as an expense) is uncertain. Additionally, we file income, franchise, gross receipts and similar tax returns in many jurisdictions. Our tax returns are subject to audit by the Internal Revenue Service, most states in the United States, and by various government agencies representing many jurisdictions outside the United States. We estimate and provide for additional income taxes that may be assessed by the various taxing authorities.

We use the asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the amount of tax payable for the period plus or minus the change in deferred tax assets and liabilities during the period.

Valuation allowances based on our judgments and estimates are established when necessary to reduce deferred tax assets to the amount expected to be realized and based on expected future operating results and available tax alternatives. Our estimates are based on facts and circumstances in existence as well as interpretations of existing tax regulations and laws applied to the facts and circumstances, with the help of professional tax advisors. Management believes that realization of deferred tax assets in excess of the valuation allowance is more likely than not.

Pension Plans and Post-retirement Benefits

We account for our defined benefit pension plans and post-retirement benefits using actuarial valuations that are based on assumptions, including discount rates, long-term rates of return on plan assets, and rates of change in participant compensation levels. We evaluate the funded status of each of our defined benefit pension plans and post-retirement benefit plans using these assumptions, consider applicable regulatory requirements, tax deductibility, reporting considerations and other relevant factors, and thereby determine the appropriate funding level for each period. The discount rate used to calculate the present value of the pension benefit obligation is assessed at least annually. The discount rate represents the rate inherent in the price at which the plans' obligations are intended to be settled at the measurement date.

We have adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, “*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*” (“SFAS 158”). A more detailed discussion of the incremental effect of the provisions of SFAS 158 and the assumptions used in determining the actuarial valuation of our defined benefit pension plans and post-retirement benefit plans are disclosed in Note 10, “Employee Retirement and Post-Retirement Medical Plans.”

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted-average number of common shares outstanding for the period, excluding unvested restricted stock awards and units. Diluted EPS is computed using the treasury stock method for stock options and unvested restricted stock awards and units. The treasury stock method assumes conversion of all potentially dilutive shares of common stock whereby the proceeds from assumed exercises are used to hypothetically repurchase stock at the average market price for the period. Potentially dilutive shares of common stock outstanding include stock options and unvested restricted stock awards and units, which includes consideration of stock-based compensation required by Statement of Financial Accounting Standards No. 123 (Revised), “*Share-Based Payment*” (“SFAS 123(R)”). Diluted EPS is computed by dividing net income plus preferred stock dividends, if any, by the weighted-average common shares and potentially dilutive common shares that were outstanding during the period.

In accordance with the disclosure requirements of Statement of Financial Accounting Standards No. 128, “*Earnings per Share*” (“SFAS 128”), a reconciliation of the numerator and denominator of basic and diluted EPS is provided as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
(In thousands, except per share amounts)				
Numerator — Basic				
Net income	\$ 113,012	\$ 82,475	\$ 1,163	\$ 61,704
Denominator — Basic				
Weighted-average common stock shares outstanding	50,705	46,742	43,643	39,123
Basic earnings per share	\$ 2.23	\$ 1.76	\$.03	\$ 1.58
Numerator — Diluted				
Net income	\$ 113,012	\$ 82,475	\$ 1,163	\$ 61,704
Denominator — Diluted				
Weighted-average common stock shares outstanding	50,705	46,742	43,643	39,123
Effect of dilutive securities:				
Stock options and restricted stock awards and units	947	1,084	1,670	1,231
	51,652	47,826	45,313	40,354
Diluted earnings per share	\$ 2.19	\$ 1.72	\$.03	\$ 1.53

In our computation of diluted EPS, we excluded the following potential shares of issued and unexercised stock options, and unvested restricted stock awards and units, which had an anti-dilutive effect on EPS.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
(In thousands)				
Number of stock options where exercise price exceeds average price and unvested restricted stock awards and units	648	295	27	52

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Adopted and Other Recently Issued Statements of Financial Accounting Standards

We adopted SFAS 123(R) on December 31, 2005, the beginning of our 2006 fiscal year, using the modified prospective transition method, which requires measurement of compensation expense for all stock-based awards at fair value on the grant date and recognition of compensation over the service period for awards expected to vest. Upon adoption, our consolidated financial statements reflected the impact of SFAS 123(R), but in accordance with the modified prospective transition method, prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Our consolidated financial statements for the fiscal year ended December 29, 2006 include the tax effects of share-based payment awards as we concluded our assessment of the impact of FASB Staff Position No. SFAS 123(R)-3, "*Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*" ("SFAS 123(R)-3") in connection with the completion of our financial statements. Under the provisions of SFAS 123(R)-3, we elected to adopt the alternative method of 1) calculating the historical pool of windfall tax benefits and 2) accounting for the tax effects of stock compensation in the results of operations and cash flow reporting for awards that were outstanding as of the adoption of SFAS 123(R).

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48") "*Accounting for Uncertainty in Income Taxes*," which prescribes a recognition threshold and measurement process for recording, as liabilities in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on recognition or de-recognition and measurement and classification of such liabilities; accruals of interest and penalties; accounting for changes in judgment in interim periods; and disclosure requirements for uncertain tax positions. The provisions of FIN 48 will be effective for us at the beginning of fiscal year 2007. FIN 48 requires that the cumulative effect of applying the interpretation is to be reported as an adjustment to the beginning balance of retained earnings as of December 30, 2006. We anticipate the effect to our balance sheet as of December 30, 2006 to be immaterial.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 "*Fair Value Measurement*," ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. It is effective for us beginning in fiscal year 2008. We are currently in the process of determining the effect that the adoption of this statement will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS 158. This statement requires (1) recognition on the balance sheet of an asset for a defined benefit plan's overfunded status or a liability for a plan's underfunded status, (2) measurement of a defined benefit plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (3) recognition as a component of other comprehensive income the changes in a defined benefit plan's funded status that are not recognized as components of net periodic benefit cost.

The requirement to recognize the funded status of a defined benefit plan and the disclosure requirements is effective for us at this fiscal year ended December 29, 2006. The requirement to measure the defined benefit plan assets and benefit obligations as of the date of the employer's fiscal year-end will be effective for us for the fiscal year ending in December 2008.

We adopted the recognition provisions of SFAS 158 on December 29, 2006. Adoption of SFAS 158 has no impact on our loan covenants. A more detailed discussion of the incremental effect of the provisions of SFAS 158 is included in Note 10, "Employee Retirement and Post-Retirement Medical Plans."

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB 108"). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related financial statement disclosure using both the "rollover" approach and the "iron curtain" approach, either of which was previously acceptable.

SAB 108 is effective for us at the end of this fiscal year ending December 29, 2006. The adoption of SAB 108 did not have a material effect on our consolidated financial statements.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Reclassifications

We made reclassifications to the financial statements for the year ended December 30, 2005, the two-month period ended December 31, 2004 and the year ended October 31, 2004 to conform them to the presentation for the year ended December 29, 2006. These reclassifications have no effect on consolidated net income, stockholders' equity and net cash flows.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 29, 2006	December 30, 2005
	(In thousands)	
Equipment	\$ 174,996	\$ 156,893
Furniture and fixtures	22,729	21,469
Leasehold improvements	47,431	41,676
Construction in progress	8,897	4,660
	254,053	224,698
Accumulated depreciation and amortization	(140,271)	(120,950)
	113,782	103,748
Capital leases (1)	118,196	100,275
Accumulated amortization	(68,836)	(57,553)
	49,360	42,722
Property and equipment at cost, net	\$ 163,142	\$ 146,470

(1) Our capital leases consisted primarily of equipment and furniture and fixtures.

As of December 29, 2006 and December 30, 2005, we capitalized internal-use software development costs of \$67.8 million and \$61.0 million, respectively. We amortize the capitalized software costs using the straight-line method over an estimated useful life of ten years.

Property and equipment was depreciated by using the following estimated useful lives:

	Estimated Useful Lives
Equipment	4 – 10 years
Capital leases	3 – 10 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	6 months – 20 years

Depreciation expense of property and equipment was as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In millions)			
Depreciation expense of property and equipment	\$ 36.4	\$ 36.0	\$ 6.4	\$ 38.3

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 3. PURCHASED INTANGIBLE ASSETS AND GOODWILL

Purchased Intangible Assets

Purchased intangible assets comprise customer backlog, software acquired, and favorable leases. As of December 29, 2006 and December 30, 2005, the cost and accumulated amortization of our purchased intangible assets were as follows:

	Backlog		Software		Favorable Leases		Total
	(In thousands)						
As of December 29, 2006							
Purchased intangible assets	\$	10,778	\$	3,900	\$	950	\$ 15,628
Less: accumulated amortization		7,360		3,900		529	11,789
Purchased intangible assets, net	\$	3,418	\$	—	\$	421	\$ 3,839
As of December 30, 2005							
Purchased intangible assets	\$	10,766	\$	3,900	\$	950	\$ 15,616
Less: accumulated amortization		5,915		3,900		422	10,237
Purchased intangible assets, net	\$	4,851	\$	—	\$	528	\$ 5,379

The purchased intangible assets are amortized using the straight-line method over their contractual or economic lives. Amortization expense of our purchased intangible assets was as follows:

	Year Ended		Year Ended		Two Months		Year Ended
	December 29,		December 30,		Ended		October 31,
	2006		2005		December 31,		2004
					(In millions)		
Amortization expense of our purchased intangible assets	\$	1.5	\$	2.5	\$	0.5	\$ 3.1

The following table presents the estimated future amortization expense of purchased intangible assets:

	Estimated future amortization expense		
	Backlog	Favorable Leases	Total
	(In thousands)		
2007	\$ 836	\$ 97	\$ 933
2008	471	97	568
2009	328	97	425
2010	314	97	411
2011	301	33	334
Thereafter	1,168	0	1,168
	\$ 3,418	\$ 421	\$ 3,839

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Goodwill

As of December 29, 2006 and December 30, 2005, our consolidated goodwill was \$989.1 million and \$986.6 million, respectively. The net change of \$2.5 million for the year ended December 29, 2006 was due to:

- an increase of \$5.8 million resulting from our acquisition of Cash & Associates, a privately-held company specializing in civil and structural engineering and program management services for ports and harbors; offset by
- an adjustment of \$3.3 million recorded during the first quarter of 2006, primarily related to a foreign subsidiary's pension plan liability.

As of December 30, 2005 and December 31, 2004, our consolidated goodwill balances were \$986.6 million and \$1,004.7 million, respectively. The net change of \$18.1 million for the 2005 fiscal year was due to:

- an increase of \$1.5 million resulting from our August 2005 acquisition of Austin Ausino, a small engineering and project management firm based in China; offset by
- during the fourth quarter of 2005, we recorded adjustments to goodwill related to an August 2002 acquisition to correct deferred tax assets recorded in connection with purchase accounting. We believe that the effect of these adjustments were not material to our financial position or results of operations for any prior periods or to the fourth quarter or full year of 2005. At December 30, 2005, these adjustments reduced goodwill by approximately \$19.6 million, decreased long-term deferred tax liabilities by \$14.6 million and increased 2005 income tax expense by \$3.6 million.

NOTE 4. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
(In thousands)				
Current:				
Federal	\$ 65,413	\$ 37,711	\$ —	\$ 28,713
State and local	20,756	11,240	171	6,196
Foreign	7,332	2,688	433	2,111
Subtotal	93,501	51,639	604	37,020
Deferred:				
Federal	(5,070)	8,522	1,080	1,056
State and local	(633)	853	130	128
Foreign	(3,005)	(654)	(694)	1,336
Subtotal	(8,708)	8,721	516	2,520
Total income tax expense	\$ 84,793	\$ 60,360	\$ 1,120	\$ 39,540

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The income (loss) before income taxes, by geographic area, was as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In thousands)			
Income (loss) before income taxes and minority interest:				
United States	\$ 191,384	\$ 134,223	\$ 4,934	\$ 94,956
International	7,665	8,612	(2,651)	6,288
Total income before income taxes and minority interest	\$ 199,049	\$ 142,835	\$ 2,283	\$ 101,244

As of December 29, 2006, for federal income tax purposes, we had available a domestic net operating loss (“NOL”) of \$2.5 million. Utilization of the NOL is limited pursuant to Section 1503 of the Internal Revenue Code and will be utilized against the income of our insurance company subsidiary. This NOL will be carried forward and will expire in fiscal year 2022. We also have \$15.9 million of foreign NOLs available. Of this amount, \$1.2 million will expire at various dates between 2007 and 2021, while the remaining \$14.7 million will carry forward indefinitely. These foreign NOLs are available only to offset income earned in foreign jurisdictions. Further, we have \$11.8 million of state and local NOLs available. Of this amount, \$4.6 million will expire in 2007, while the remaining \$7.2 million will expire at various dates between 2008 and 2022.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The significant components of our deferred tax assets and liabilities were as follows:

Deferred tax assets/(liabilities) resulting from:

	December 29, 2006	December 30, 2005	December 31, 2004	October 31, 2004
Current:				(In thousands)
Receivable allowances	\$ 6,549	\$ 5,185	\$ 6,429	\$ 6,049
Net operating losses	—	—	2,411	—
Revenue from partnerships and limited liability companies	2,582	2,118	435	435
Foreign subsidiaries' accruals	1,530	1,976	—	—
Estimated loss accruals	13,319	12,042	8,365	7,878
State income taxes	709	2,575	12	2,014
Payroll-related accruals	26,023	13,539	21,006	20,609
Other accrual and reserves	751	—	—	—
Unearned revenue	2,532	—	—	—
Other	4,034	3,395	1,579	1,437
Current deferred tax assets	58,029	40,830	40,237	38,422
Revenue retentions	(3,428)	(547)	(425)	(405)
Prepaid expenses	(4,332)	(2,865)	(3,395)	(810)
Costs and accrued earnings in excess of billings on contracts in process	(13,722)	(18,742)	(11,735)	(14,997)
Current deferred tax liabilities	(21,482)	(22,154)	(15,555)	(16,212)
Net current deferred tax assets	\$ 36,547	\$ 18,676	\$ 24,682	\$ 22,210
Non-Current:				
Deferred compensation and pension liabilities	\$ 32,682	\$ 21,756	\$ 5,982	\$ 8,538
Self-insurance contingency accrual	7,617	8,785	7,471	7,567
Depreciation and amortization	1,467	—	—	—
Foreign tax credit	5,380	5,470	2,839	2,839
Income tax credits	2,508	2,859	3,417	3,418
Rental accrual	6,062	5,937	2,350	2,354
Net operating losses	4,169	7,718	11,007	10,314
Goodwill amortization	2,424	—	—	—
Other reserves	9,155	8,745	—	—
Other	3,905	2,736	1,557	1,557
Gross non-current deferred tax asset	75,369	64,006	34,623	36,587
Valuation allowance	(630)	(454)	—	—
Net non-current deferred tax assets	74,739	63,552	34,623	36,587
Acquisition liabilities	—	(2,019)	(3,383)	(3,341)
Goodwill amortization	(63,173)	(46,701)	(37,716)	(36,181)
Depreciation and amortization	(19,832)	(25,920)	(24,440)	(24,793)
Self-insurance accrual	(1,276)	(1,352)	(1,443)	(1,443)
Accumulated accretion	(2,804)	(2,280)	(1,595)	(1,481)
Insurance subsidiary basis difference	(2,562)	(2,357)	(3,599)	(3,599)
Other accruals	(2,900)	(2,708)	(2,820)	(2,824)
Non-current deferred tax liabilities	(92,547)	(83,337)	(74,996)	(73,662)
Net non-current deferred tax liabilities	\$ (17,808)	\$ (19,785)	\$ (40,373)	\$ (37,075)

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our deferred tax assets arose from temporary differences in the recognition of accruals, primarily compensation and loss-related accruals, and receivable allowances. Our current deferred tax assets at December 29, 2006 increased from the balance at December 30, 2005 due to an increase in payroll-related accruals and unearned revenue. Our current deferred tax liability, decreased slightly as of December 29, 2006 compared to the balance as of December 30, 2005 primarily due to an increase in prepaid expenses offset by a larger decrease in the recognition of costs and accrued earnings in excess of billings on contracts in process. Total tax deductible goodwill resulting from the Dames & Moore and EG&G acquisitions amounted to \$350.2 million. As of December 29, 2006, \$151.9 million of goodwill was unamortized for tax purposes. The difference between tax and financial statement cumulative amortization on tax deductible goodwill gave rise to a long-term deferred tax liability. Our net non-current deferred tax liabilities as of December 29, 2006 decreased from the balance at December 30, 2005 due to increases in deferred tax assets related to pension liabilities and reserves. These increases were greater than the increases in deferred tax liabilities related to tax deductible goodwill.

As of December 29, 2006, undistributed earnings of our foreign operations totaling \$16.0 million were considered to be indefinitely reinvested outside of our home tax jurisdiction. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. pursuant to Accounting Principles Board Opinion No. 23, "*Accounting for Income Taxes – Special Areas*," since it is our intention to utilize those earnings in the foreign operations. The determination of the amount of deferred taxes on these earnings is not practicable since the computation would depend on a number of factors that cannot be known unless a decision to repatriate the earnings is made.

The difference between total tax expense and the amount computed by applying the statutory federal income tax rate to income before taxes was as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In thousands)			
Federal income tax expense based upon federal statutory tax rate of 35%	\$ 69,669	\$ 49,992	\$ 799	\$ 35,436
Non-deductible meals and entertainment	1,014	1,648	225	1,397
Other non-deductible expenses	1,341	1,102	140	1,007
Federal and state tax credits	(457)	(1,616)	(214)	(1,549)
Foreign earnings taxed at rates lower than U.S. statutory rate	925	35	128	(30)
State taxes, net of federal benefit	10,701	9,913	141	4,270
Purchase price adjustment on acquisition	—	—	—	(1,496)
Other adjustments	1,600	(714)	(99)	505
Total income tax expense	\$ 84,793	\$ 60,360	\$ 1,120	\$ 39,540

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 29, 2006	December 30, 2005
	(In thousands)	
Bank term loans	\$ 114,000	\$ 270,000
11½% senior notes	—	2,798
Obligations under capital leases	46,688	36,187
Notes payable, foreign credit lines and other indebtedness	7,926	9,575
Total current and long-term debt	168,614	318,560
Less:		
Current portion of long-term debt	4,704	2,798
Current portion of notes payable, foreign credit lines and other indebtedness	1,647	6,964
Current portion of capital leases	12,769	10,885
Long-term debt	\$ 149,494	\$ 297,913

Credit Facilities

On June 28, 2005, we entered into a new credit facility (“Credit Facility”) consisting of a 6-year term loan of \$350.0 million and a 5-year Revolving Line of Credit of \$300.0 million, against which up to \$200.0 million can be used to issue letters of credit. As of December 29, 2006, we had \$114.0 million outstanding under the term loan, \$61.3 million in letters of credit, and no amount outstanding under the Revolving Line of Credit.

Our Revolving Line of Credit is used to fund daily operating cash needs and to support our standby letters of credit. During the ordinary course of business, the use of our Revolving Line of Credit is a function of collection and disbursement activities. Our daily cash needs generally follow a predictable pattern that parallels our payroll cycles, which dictate, as necessary, our short term borrowing requirements.

Principal amounts under the term loan will become due and payable on a quarterly basis: 15% of the principal will be payable in four equal quarterly payments beginning in the third quarter of 2008, 20% of the principal will be due during the next four quarters, and 65% will be due in the final four quarters ending on June 28, 2011. Our Revolving Line of Credit expires and is payable in full on June 28, 2010. At our option, we may repay the loans under our Credit Facility without premium or penalty.

All loans outstanding under our Credit Facility bear interest at either LIBOR or the bank's base rate plus an applicable margin, at our option. The applicable margin will change based upon our credit rating as reported by Moody's Investor Services (“Moody's”) and Standard & Poor's. The LIBOR margins range from 0.625% to 1.75% and the base rate margins range from 0.0% to 0.75%. As of December 29, 2006, the LIBOR margin was 1.00% for both the term loan and Revolving Line of Credit. As of December 29, 2006, the interest rate on our term loan was 6.36%.

A substantial number of our domestic subsidiaries are guarantors of the Credit Facility on a joint and several basis. Initially, the obligations are collateralized by our guarantors' capital stock. The collateralized obligations will be eliminated if we reach an investment grade credit rating of “Baa3” from Moody's and “BBB-” from Standard & Poor's; while our credit ratings have been upgraded since the inception of our Credit Facility, we have not yet achieved the investment grades necessary to eliminate the capital stock collateralization. If our credit rating were to fall to or below “Ba2” from Moody's or “BB” from Standard & Poor's, we would be required to provide a secured interest in substantially all of our existing and subsequently acquired personal and real property, in addition to the collateralized guarantors' capital stock. Although the capital stock of the non-guarantor subsidiaries are not required to be pledged as collateral, the terms of the Credit Facility restrict the non-guarantors' assets, with some exceptions, from being used as a pledge for future liens (a “negative pledge”). As of December 29, 2006, our Moody's and Standard and Poor's credit ratings were “Ba1” and BB+, respectively.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our Credit Facility contains financial covenants. We are required to maintain: (a) a maximum ratio of total funded debt to total capital of 40% or less and (b) a minimum interest coverage ratio of not less than 3 to 1. The interest coverage ratio is calculated by dividing consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), as defined in our Credit Facility agreement, by consolidated cash interest expense.

The Credit Facility also contains customary events of default and customary affirmative and negative covenants, some of which are dependent upon our credit ratings and include, but are not limited to, limitations on mergers, consolidations, acquisitions, asset sales, stock redemptions or repurchases, transactions with stockholders and affiliates, liens, capital leases, negative pledges, sale–leaseback transactions, indebtedness, contingent obligations and investments, and restrictions against dividend payments.

As of December 29, 2006, we were in compliance with all the covenants of the Credit Facility.

Our revolving line of credit information was summarized as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(in millions, except percentages)			
Effective average interest rates paid on the revolving line of credit	7.6%	6.3%	5.9%	5.7%
Average daily revolving line of credit balances	\$ 0.4	\$ 2.4	\$ 1.6	\$ 22.7
Maximum amounts outstanding at any one point	\$ 21.8	\$ 22.8	\$ 18.0	\$ 74.6

Other Indebtedness

11½% Senior Notes (“11½% notes”). On September 15, 2006, we redeemed and retired the outstanding amount of \$2.8 million of our 11½% Notes. As of December 30, 2005, we had \$2.8 million of 11½% Notes outstanding.

Notes payable, foreign credit lines and other indebtedness. As of December 29, 2006 and December 30, 2005, we had outstanding amounts of \$7.9 million and \$9.6 million, respectively, in notes payable and foreign lines of credit. Notes payable primarily include notes used to finance the purchase of office equipment, computer equipment and furniture. The weighted average interest rates of the notes were approximately 6.1% and 5.6% as of December 29, 2006 and December 30, 2005, respectively.

We maintain foreign lines of credit, which are collateralized by the assets of our foreign subsidiaries and letters of credit. As of December 29, 2006, we had \$13.8 million in lines of credit available under these facilities, with \$4.6 million outstanding. As of December 30, 2005, we had \$10.0 million in lines of credit available under these facilities, with no amounts outstanding. The interest rates were 6.2% and 6.6% as of December 29, 2006 and December 30, 2005, respectively.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Maturities

As of December 29, 2006, the amounts of our long-term debt outstanding (excluding capital leases; see Note 6, “Obligations Under Leases”) that mature in the next five years and thereafter were as follows:

	(In thousands)
Less than one year	6,351
Second year	4,745
Third year	18,900
Fourth year	36,028
Fifth year	55,790
Thereafter	112
	\$ 121,926

Costs Incurred for Extinguishment of Debt

The write-off of the prepaid financing fees, debt issuance costs and discounts and the amounts paid for call premiums are included in the indirect, general and administrative expenses of our Consolidated Statements of Operations and Comprehensive Income. We incurred the following costs to extinguish our old senior credit facility (“Old Credit Facility”), 6½% convertible subordinated debentures (“6½% debentures”), 11½% notes, and 12¼% senior subordinated notes (“12¼% notes”) due 2009 during years ended December 29, 2006, December 30, 2005, and October 29, 2004. During the two months ended December 31, 2004, we did not extinguish any debt.

	Year Ended December 29, 2006					
	Old Credit Facility	6 ½% Debentures	11 ½% Notes	12 ¼% Notes	Total	
	(in thousands)					
Write-off of debt issuance costs and discounts	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	---
Tender/Call premiums and expenses	---	---	162	---	---	162
Total	\$ ---	\$ ---	\$ 162	\$ ---	\$ ---	162

	Year Ended December 30, 2005					
	Old Credit Facility	6 ½% Debentures	11 ½% Notes	12 ¼% Notes	Total	
	(in thousands)					
Write-off of debt issuance costs and discounts	\$ 6,012	\$ 16	\$ 7,528	\$ 149	\$ 13,705	13,705
Call premiums	---	---	18,813	613	---	19,426
Total	\$ 6,012	\$ 16	\$ 26,341	\$ 762	\$ 33,131	33,131

	Year Ended October 31, 2004					
	Old Credit Facility	6 ½% Debentures	11 ½% Notes	12 ¼% Notes	Total	
	(in thousands)					
Write-off of debt issuance costs and discounts	\$ ---	\$ ---	\$ 5,191	\$ 3,286	\$ 8,477	8,477
Call premiums	---	---	8,050	11,638	---	19,688
Total	\$ ---	\$ ---	\$ 13,241	\$ 14,924	\$ 28,165	28,165

URS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****NOTE 6. OBLIGATIONS UNDER LEASES**

Total rental expense included in operations for operating leases for the years ended December 29, 2006, December 30, 2005, and October 31, 2004, totaled \$103.9 million, \$96.1 million and \$91.9 million, respectively. For the two months ended December 31, 2004, total rental expense included in our Consolidated Statements of Operations and Comprehensive Income for operating leases was \$16.5 million. Some of the operating leases are subject to renewal options and escalation based upon property taxes and operating expenses. These operating lease agreements expire at varying dates through 2011. Obligations under operating leases include office and other equipment rentals. Obligations under capital leases include leases on vehicles, office equipment and other equipment.

Obligations under non-cancelable lease agreements were as follows:

	Capital Leases	Operating Leases
	(In thousands)	
2007	\$ 15,361	\$ 95,589
2008	13,876	84,649
2009	11,355	72,740
2010	7,887	63,652
2011	3,555	42,741
Thereafter	645	85,167
Total minimum lease payments	52,679	\$ 444,538
Less: amounts representing interest	5,991	
Present value of net minimum lease payments	\$ 46,688	

NOTE 7. SEGMENT AND RELATED INFORMATION

We operate our business through two segments: the URS Division and the EG&G Division. Our URS Division provides a comprehensive range of professional planning and design, program management, construction management, and operations and maintenance services to the U.S. federal government, state and local government agencies, and private industry clients in the United States and internationally. Our EG&G Division provides planning, systems engineering and technical assistance, operations and maintenance, and program management services to various U.S. federal government agencies, primarily the Departments of Defense and Homeland Security.

These two segments operate under separate management groups and produce discrete financial information. Their operating results also are reviewed separately by management. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The information disclosed in our consolidated financial statements is based on the two segments that comprise our current organizational structure.

The following table presents summarized financial information of our reportable segments. “Eliminations” in the following tables include elimination of inter-segment sales and investments in subsidiaries. The segment balance sheet information presented below is included only for informational purposes. We do not allocate resources or measure performance based upon the balance sheet amounts of individual segments. Our long-lived assets primarily consist of our property and equipment.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Net Accounts Receivable	December 29, 2006 Property and Equipment at Cost, Net (In thousands)	Total Assets
URS Division	\$ 908,038	\$ 145,732	\$ 1,229,156
EG&G Division	274,661	13,173	306,336
	1,182,699	158,905	1,535,492
Corporate	—	4,237	1,699,534
Eliminations	—	—	(653,997)
Total	\$ 1,182,699	\$ 163,142	\$ 2,581,029

	Net Accounts Receivable	December 30, 2005 Property and Equipment at Cost, Net (In thousands)	Total Assets
URS Division	\$ 801,440	\$ 132,983	\$ 1,084,127
EG&G Division	298,550	8,491	320,616
	1,099,990	141,474	1,404,743
Corporate	—	4,996	1,687,184
Eliminations	—	—	(622,479)
Total	\$ 1,099,990	\$ 146,470	\$ 2,469,448

	Net Accounts Receivable	December 31, 2004 Property and Equipment at Cost, Net (In thousands)	Total Assets
URS Division	\$ 728,850	\$ 132,277	\$ 941,476
EG&G Division	212,802	7,254	230,573
	941,652	139,531	1,172,049
Corporate	—	3,376	1,725,099
Eliminations	—	—	(589,400)
Total	\$ 941,652	\$ 142,907	\$ 2,307,748

For the Fiscal Year Ended December 29, 2006

	Revenues	Inter-segment Revenues (In thousands)	Consolidated
URS Division	\$ 2,792,420	\$ 12,261	\$ 2,804,681
EG&G Division	1,447,730	3,193	1,450,923
Eliminations	—	(15,454)	(15,454)
	4,240,150	—	4,240,150
Corporate	—	—	—
Total	\$ 4,240,150	\$ —	\$ 4,240,150

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
For the Fiscal Year Ended December 30, 2005

	Revenues	Inter-segment Revenues (In thousands)	Consolidated
URS Division	\$ 2,549,756	\$ 6,944	\$ 2,556,700
EG&G Division	1,367,809	1,139	1,368,948
Eliminations	—	(8,083)	(8,083)
Total	\$ 3,917,565	\$ —	\$ 3,917,565

For the Two Months Ended December 31, 2004

	Revenues	Inter-segment Revenues (In thousands)	Consolidated
URS Division	\$ 370,285	\$ —	\$ 370,285
EG&G Division	196,712	292	197,004
Eliminations	—	(292)	(292)
Total	\$ 566,997	\$ —	\$ 566,997

For the Fiscal Year Ended October 31, 2004

	Revenues	Inter-segment Revenues (In thousands)	Consolidated
URS Division	\$ 2,255,188	\$ —	\$ 2,255,188
EG&G Division	1,126,775	2,997	1,129,772
Eliminations	—	(2,997)	(2,997)
Total	\$ 3,381,963	\$ —	\$ 3,381,963

We define segment contribution as total segment operating income (which is net income before income taxes and interest expense) before allocation of various segment expenses, including stock compensation expenses.

	For the Fiscal Year Ended December 29, 2006 Depreciation and Contribution (In thousands)	Amortization
URS Division	\$ 191,633	\$ 32,933
EG&G Division	71,401	4,071
Eliminations	(966)	—
Corporate (1)	262,068	37,004
Total	\$ (43,279)	976
	\$ 218,789	\$ 37,980

Segment contribution for prior years included an immaterial amount of stock compensation expenses; therefore, segment contribution in prior years approximated operating income. As a result of the adoption of SFAS 123(R) at the beginning of fiscal year 2006, we recorded stock compensation as a corporate expense for the fiscal year ended December 29, 2006. A reconciliation of segment contribution to segment operating income for the fiscal year ended December 29, 2006 is as follows:

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For the Fiscal Year Ended December 29, 2006

	URS Division	EG&G Division	Corporate (In thousands)	Elimination	Consolidated
Contribution	\$ 203,500	\$ 75,148	\$ (58,893)	\$ (966)	\$ 218,789
Unallocated SFAS 123(R) expenses	(10,821)	(2,225)	13,046	—	—
Other miscellaneous unallocated expenses	(1,046)	(1,522)	2,568	—	—
Operating income (loss)	\$ 191,633	\$ 71,401	\$ (43,279)	\$ (966)	\$ 218,789

**For the Fiscal Year Ended
December 30, 2005**
**Contribution / Depreciation
Operating and
Income Amortization**
(In thousands)

URS Division	\$ 194,161	\$ 32,354
EG&G Division	63,459	5,013
Eliminations	(507)	—
	257,113	37,367
Corporate (1)	(82,691)	1,181
Total	\$ 174,422	\$ 38,548

**For the Two Months Ended
December 31, 2004**
**Contribution / Depreciation
Operating and
Income Amortization**
(In thousands)

URS Division	\$ 5,565	\$ 5,593
EG&G Division	8,059	1,218
Eliminations	—	—
	13,624	6,811
Corporate	(4,554)	98
Total	\$ 9,070	\$ 6,909

**For the Fiscal Year Ended
October 31, 2004**
**Contribution / Depreciation
Operating and
Income Amortization**
(In thousands)

URS Division	\$ 168,160	\$ 35,597
EG&G Division	54,914	5,403
Eliminations	—	—
	223,074	41,000
Corporate (1)	(61,089)	407
Total	\$ 161,985	\$ 41,407

(1) We included charges, in indirect, general and administrative expenses, of \$0.2 million, \$33.1 million and \$28.2 million for costs incurred to extinguish our debt during the years ended December 29, 2006, December 30, 2005, and October 31, 2004, respectively.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Geographic areas

We provide services in many parts of the world. Some of our services are provided to companies in other countries, but are served by our offices located in the United States. Generally, revenues related to such services are classified within the geographic area where the services are performed, rather than where the client is located. Our revenues and net property and equipment at cost by geographic area are shown below.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In thousands)			
Revenues				
United States	\$ 3,845,558	\$ 3,553,901	\$ 514,325	\$ 3,073,517
International	404,294	377,928	53,403	314,453
Eliminations	(9,702)	(14,264)	(731)	(6,007)
Total revenues	\$ 4,240,150	\$ 3,917,565	\$ 566,997	\$ 3,381,963

No individual foreign country contributed more than 10% of our consolidated revenues for the fiscal year ended December 29, 2006, the fiscal year ended December 30, 2005, the two months ended December 31, 2004, and the fiscal year ended October 31, 2004.

	December 29, 2006	December 30, 2005
	(In thousands)	
Property and equipment at cost, net		
United States	\$ 142,709	\$ 129,182
International	20,433	17,288
Total Property and equipment at cost, net	\$ 163,142	\$ 146,470

Major Customers

We have multiple contracts with the U.S. Army, which collectively contributed more than 10% of our total consolidated revenues; however, we are not dependent on any single contract on an ongoing basis, and the loss of any contract would not have a material adverse effect on our business.

For purposes of analyzing disclosures of revenues from major customers, we do not consider the combination of all federal departments and agencies as one customer, which contributed approximately 45% of our consolidated revenues. The different federal agencies manage separate budgets. As such, a budget cut in one federal agency does not affect the revenues we earn from another federal agency. In addition, the procurement processes for separate federal agencies are not centralized and the procurement decisions are made separately by each federal agency.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	URS Division	EG&G Division (In millions)	Total
Year ended December 29, 2006			
The U.S. Army (1)	\$ 107.8	\$ 735.2	\$ 843.0
Year ended December 30, 2005			
The U.S. Army (1)	\$ 109.2	\$ 682.2	\$ 791.4
Two months ended December 31, 2004			
The U.S. Army (1)	\$ 17.1	\$ 91.2	\$ 108.3
Year ended October 31, 2004			
The U.S. Army (1)	\$ 96.0	\$ 490.7	\$ 586.7

(1) The U.S. Army includes U.S. Army Corps of Engineers

NOTE 8. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, we are subject to certain contractual guarantees and governmental audits or investigations. We are also involved in various legal proceedings that are pending against us and our subsidiaries alleging, among other things, breach of contract or tort in connection with the performance of professional services, the various outcomes of which cannot be predicted with certainty. We are including information regarding the following proceedings in particular:

- *Saudi Arabia:* One of our subsidiaries, LSI provided aircraft maintenance support services on F-5 aircraft under contracts (the “F-5 Contract”) with a Saudi Arabian government ministry (the “Ministry”). LSI’s operational performance under the F-5 Contract was completed in November 2000 and the Ministry has yet to pay a \$12.2 million account receivable owed to LSI. The following legal proceedings ensued:

Two Saudi Arabian landlords have pursued claims over disputed rents in Saudi Arabia. The Saudi Arabian landlord of the Al Bilad complex received a judgment in Saudi Arabia against LSI for \$7.9 million. Another landlord has obtained a judgment in Saudi Arabia against LSI for \$1.2 million and LSI successfully appealed this decision in June 2005 in Saudi Arabia, which was remanded for future proceedings. We continue to review our legal position and strategy regarding these judgments.

LSI is involved in a dispute relating to a tax assessment issued by the Saudi Arabian taxing authority (“Zakat”) against LSI of approximately \$5.1 million for the years 1999 through 2002. LSI disagreed with the Zakat assessment and on June 6, 2006, the Zakat and Tax Preliminary Appeal Committee ruled partially in favor of LSI by reducing the tax assessment to approximately \$2.2 million. LSI has appealed the decision of the Zakat and Tax Preliminary Appeal Committee in an effort to eliminate or further reduce the assessment, and, as a part of that appeal, posted a bond in the full amount of the remaining tax assessment. LSI will continue to vigorously defend this matter.

In November 2004, LSI filed suit against the Ministry in the United States District Court for the Western District of Texas. The suit seeks damages for, among other things, intentional interference with commercial relations caused by the Ministry’s wrongful demand of the performance bond; breach of the F-5 Contract; unjust enrichment and promissory estoppel, and seeks payment of the \$12.2 million account receivable. In March 2005, the Ministry filed a motion to dismiss, which the District Court denied. In November 2005, the Ministry filed another motion to dismiss, to which the District Court responded by ordering the parties to conduct further discovery, which is ongoing. LSI intends to continue to vigorously pursue this matter.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- *Lebanon:* Our 1999 acquisition of Dames and Moore Group, Inc. included the acquisition of a wholly-owned subsidiary, Radian International, LLC ("Radian"). Prior to the acquisition, Radian entered into a contract with the Lebanese Company for the Development and Reconstruction of Beirut Central District, S.A.L. ("Solidere"). Under the contract, Radian was to provide environmental remediation services at the Normandy Landfill site located in Beirut, Lebanon (the "Normandy Project"). Radian subcontracted a portion of these services to Mouawad – Edde SARL. The contract with Solidere required the posting of a Letter of Guarantee, which was issued by Saradar Bank, Sh.M.L. ("Saradar") in the amount of \$8.5 million. Solidere drew upon the full value of the Letter of Guarantee. The contract also provided for the purchase of project specific insurance. The project specific insurance policy was issued by Alpina Insurance Company ("Alpina").

Radian and Solidere initially sought to resolve their disputes through arbitration proceedings before the International Chamber of Commerce ("ICC"). Solidere alleges that Radian's activities and services resulted in the production of chemical and biological pollutants, including methane gas, at the Normandy Project. In July 2004, an ICC arbitration panel ruled against Radian. Among other things, the ICC ordered Radian to: i) prepare a plan to remediate the production of methane gas at the Normandy Site; and, ii) pay approximately \$2.4 million in attorney fees and other expenses. The ICC also authorized Solidere to withhold project payments.

Since the July 2004 ruling, numerous other legal actions have been initiated. On January 20, 2006, Radian initiated a new ICC arbitration proceeding against Solidere alleging, in part, that Solidere's lack of cooperation prevented Radian from complying with the July 2004 ruling. In response to Radian's January 20, 2006 filing, Solidere terminated Radian's contract and, on February 13, 2006, initiated a separate ICC arbitration proceeding against both Radian and URS Corporation, a Delaware corporation (DE), the indirect parent of Radian, claiming that URS Corporation (DE) is responsible for Radian's liabilities since both entities operated as a single economic enterprise. Solidere's February 13, 2006 filing seeks to recover the costs to remediate the Normandy Site, damages resulting from delays in project completion, and past and future legal costs. On February 20, 2006, Radian amended its January 20, 2006 filing to include Solidere's unwarranted termination of Radian's contract.

On June 30, 2006, URS Corporation (DE) filed a separate complaint in the United States District Court for the District of Delaware seeking to enjoin Solidere's attempt to include URS Corporation (DE) as a party in the arbitration before the ICC because Radian is maintained as a distinct legal entity separate from URS Corporation (DE) and therefore URS Corporation (DE) is not responsible for any of Radian's liabilities.

On June 28, 2006, Mouawad – Edde SARL, filed a request for arbitration (to which we responded to) with the ICC against Radian and URS Corporation seeking to recover \$22 million for its alleged additional costs. Mouawad – Edde SARL alleges that it is entitled to a sizable increase in the value of its subcontract for additional work it claims to have performed on the Normandy Project.

In July 2004, Saradar filed a claim for reimbursement in the First Court in Beirut, Lebanon to recover the \$8.5 million paid on the Letter of Guarantee from Radian and co-defendant Wells Fargo Bank, N.A. Saradar alleges that it is entitled to reimbursement for the amount paid on the Letter of Guarantee. In February 2005, Radian responded to Saradar's claim by filing a Statement of Defense. In April 2005, Saradar also filed a reimbursement claim against Solidere. Radian contends that it is not obligated to reimburse Saradar. The matter is currently under submission by the First Court in Beirut. The current instability in Lebanon may delay the Court's ruling.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In October 2004, Alpina notified Radian of a denial of insurance coverage. Radian filed a breach of contract and bad faith claim against Alpina in the United States District Court for the Northern District of California in October 2004 seeking declaratory relief and monetary damages. In July 2005, Alpina responded to Radian's claim by filing a motion to dismiss based on improper venue, which the District Court granted. The District Court's decision, however, did not consider the underlying merits of Radian's claim and Radian appealed the matter to the United States Court of Appeals for the Ninth Circuit in September 2005. Radian continues discussions with Alpina and its other insurance carriers to resolve the matter.

In December 2006, Zurich Insurance Company ("Zurich"), as successor in interest to Alpina, American International Specialty Lines Insurance Company ("AISLIC"), Radian, and URS Corporation, finalized a settlement agreement in which Zurich and AISLIC agreed to substantially fund the defense of some of the claims filed by Solidere in the ICC arbitration.

As of December 29, 2006, Solidere had withheld project payments owed to Radian amounting to \$10.1 million. We have recorded this amount as accounts receivable and retainage. In addition, we recorded \$5.6 million in consolidated costs and accrued earnings in excess of billings on contracts in process and \$1.2 million in consolidated other assets.

Radian will continue to vigorously pursue its claims against Solidere and Alpina. Radian and URS Corporation will also continue to vigorously defend the claims asserted against them.

• *Tampa–Hillsborough County Expressway Authority:* In 1999, URS Corporation Southern, a wholly-owned subsidiary, entered into an agreement ("Agreement") with the Tampa–Hillsborough County Expressway Authority (the "Authority") to provide foundation design, project oversight and other services in connection with the construction of the Lee Roy Selmon Elevated Expressway structure (the "Expressway") in Tampa, Florida. Also, URS Holdings, a wholly-owned subsidiary, entered into a subcontract agreement with an unrelated third party to provide geotechnical services in connection with the construction of roads to access the Expressway. In 2004, during construction of the elevated structure, one pier subsided substantially, causing significant damage to a segment of the elevated structure, though no significant injuries occurred as a result of the incident. The Authority has completed remediation of the Expressway.

In October 2005, the Authority filed a lawsuit in the Thirteenth Judicial Circuit of Florida against URS Corporation Southern, URS Holdings and an unrelated third party, alleging breach of contract and professional negligence resulting in damages to the Authority exceeding \$120 million. Sufficient information is not currently available to assess liabilities associated with the remediation. In April 2006, the Authority's Builder's Risk insurance carrier, Westchester Surplus Lines Insurance Company ("Westchester"), filed a subrogation action against URS Corporation Southern in the Thirteenth Judicial Circuit of Florida for \$2.9 million that Westchester has paid to the Authority and for any future amounts paid by Westchester for claims which the Authority has submitted for losses caused by the subsidence of the pier. URS Corporation Southern removed Westchester's lawsuit to United States District Court for the Middle District of Florida and also filed multiple counterclaims against Westchester for insurance coverage under the Westchester policy.

One of URS Southern's and URS Holdings' excess insurance carriers, Arch Specialty Insurance Company ("Arch"), which was responsible for \$15 million in excess coverage, has informed URS Southern and URS Holdings that they believe the initial notice of claim provided by our insurance broker was untimely under the Arch excess policies. URS Southern and URS Holdings reject Arch's position .

URS Southern and URS Holdings will continue to vigorously defend this matter.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- *Rocky Mountain Arsenal:* In January of 2002, URS Group, Inc., a wholly-owned subsidiary of URS Corporation, was awarded a contract by Foster Wheeler Environmental, Inc., to perform, among other things, foundation demolition and remediation of contaminated soil at the Rocky Mountain Arsenal in Colorado. URS Group, Inc. believes that contractual misrepresentations resulted in contract cost overruns in excess of \$10.0 million, of which \$4.4 million is included in our costs and accrued earnings in excess of billings on contracts in process. In October 2004, URS Group, Inc. filed a complaint asserting a breach of contract seeking recovery of the cost overruns against Foster Wheeler Environmental, and Tetra Tech FW, Inc. both subsidiaries of Tetra Tech, Inc. (“Tetra”), in District Court for the County of Denver in the State of Colorado. In June 2006, a \$1.1 million judgment was issued by the District Court against Tetra on the matter. However, URS Group, Inc. believes that the recent judgment, even though issued in its favor, did not adequately address the underlying merits of URS Group Inc.’s claims and therefore, URS Group, Inc. appealed the recent judgment to the Colorado Court of Appeals in June 2006. URS Group, Inc. intends to continue to vigorously attempt to collect the contract cost overruns of \$10.0 million.

Currently, we have limits of \$125.0 million per loss and \$125.0 million in the aggregate for general liability, professional errors and omissions liability and contractor's pollution liability insurance (in addition to other policies for some specific projects). The general liability policy includes a self-insured claim retention of \$4.0 million (or \$10.0 million in some circumstances). The professional errors and omissions liability and contractor's pollution liability insurance policies each include a self-insured claim retention amount of \$10.0 million each. Parties may seek damages that substantially exceed our insurance coverage.

Excess insurance policies above our primary policy limits provide for coverages on a “claims made” basis, covering only claims actually made and reported during the policy period currently in effect. Thus, if we do not continue to maintain these policies, we will have no coverage for claims made after the termination date even for claims based on events that occurred during the term of coverage. While we intend to maintain these policies, we may be unable to maintain existing coverage levels. We have maintained insurance without lapse for many years with limits in excess of losses sustained.

Although the outcome of our contingencies cannot be predicted with certainty and no assurances can be provided, based on our previous experience in such matters, we do not believe that the resolution of the matters described above and any of our contingencies described above, individually or collectively, are likely to materially exceed established loss accrual, or otherwise be material to our consolidated financial position. However, the resolution of outstanding contingencies is subject to inherent uncertainty and it is reasonably possible that such resolution could have an adverse effect on us.

As of December 29, 2006, we had the following guarantee obligations and commitments:

We have guaranteed the credit facility of one of our joint ventures, in the event of a default by the joint venture. This joint venture was formed in the ordinary course of business to perform a contract for the federal government. The term of the guarantee is equal to the remaining term of the underlying credit facility, which will expire on September 30, 2007. The amount of the guarantee was \$9.5 million at December 29, 2006.

During the year, we replaced letters of credit used to collateralize the credit facility of our UK operating subsidiary and bank guarantee lines of our European subsidiaries with a guarantee. As of December 29, 2006, the amount of the guarantee was \$9.7 million.

We also maintain a variety of commercial commitments that are generally made to support provisions of our contracts. In addition, in the ordinary course of business, we provide letters of credit to clients and others against advance payments and to support other business arrangements. We are required to reimburse the issuers of letters of credit for any payments they make under the letters of credit.

URS CORPORATION AND SUBSIDIARIES
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From time to time, we may provide guarantees related to our services or work. If our services under a guaranteed project are later determined to have resulted in a material defect or other material deficiency, then we may be responsible for monetary damages or other legal remedies. When sufficient information about claims on guaranteed projects is available and monetary damages or other costs or losses are determined to be probable, we recognize such guarantee losses. Currently, we have no material guarantee claims for which losses have been recognized.

We have an agreement to indemnify one of our joint venture lenders up to \$25.0 million for any potential losses, damages, and liabilities associated with lawsuits in relation to general and administrative services we provide to the joint venture. Currently, we have no indemnified claims.

NOTE 9. STOCKHOLDERS' EQUITY

Stock-based Compensation

On October 12, 1999, our stockholders approved the 1999 Equity Incentive Plan ("1999 Plan"). An aggregate of 1.5 million shares of common stock initially were reserved for issuance under the 1999 Plan, and the 1999 Plan provides for an automatic reload of shares every July 1 through 2009 equal to the lesser of 5% of the outstanding common stock or 1.5 million shares. On March 26, 1991, our stockholders approved the 1991 Stock Incentive Plan ("1991 Plan"). The 1991 Plan provided for the grant of up to 3.3 million restricted shares, stock units and options. When the 1999 Plan was approved, the remaining shares available for grant under the 1991 Plan were added to the 1999 Plan (collectively, "the Stock Incentive Plans"). The 1991 Plan is currently inactive, but there are still shares outstanding under the Plan.

As of December 29, 2006, we had reserved approximately 11.1 million shares and had issued options and restricted stock awards and units in the aggregate amount of approximately 8.0 million shares under the 1999 Plan.

We adopted SFAS 123(R) on December 31, 2005, the beginning of our 2006 fiscal year, using the modified prospective transition method. Accordingly, results of prior periods have not been restated to reflect and do not include the impact of SFAS 123(R). Upon adoption of SFAS 123(R), we recorded stock-based compensation expense for all stock-based compensation awards granted prior to, but not yet recognized as of December 31, 2005 based on the fair value at the grant date in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*." In addition, we recorded compensation expense for the share-based payment awards granted between December 31, 2005 and September 29, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). We used the Black-Scholes option pricing model to measure the estimated fair value of stock-based option awards issued under our Stock Incentive Plans and our Employee Stock Purchase Plan ("ESPP"). Prior to the adoption of SFAS 123(R), we recorded stock-based compensation expense related to stock options in accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*;" ("APB 25") accordingly, no stock option expense was recognized in indirect, general, and administrative ("IG&A") as the exercise price was the closing market value of the common stock on the day before the grant date. As a result, the recognition of stock-based compensation expense in fiscal year 2005 was limited to the expense attributed to restricted stock awards.

We recognize stock-based compensation expense, net of estimated forfeitures, over the service periods (generally vesting periods of three to four years), of the stock-based compensation awards on a straight-line basis in IG&A expenses of our Consolidated Statements of Operations and Comprehensive Income. Stock option awards expire in ten years from the date of grant. Stock options, restricted stock awards, and restricted stock units vest over service periods that range from three to four years. SFAS 123(R) requires the estimation of forfeitures at the time of grant and then re-measured at least annually in order to estimate the amount of share-based awards that will ultimately vest. We estimate the forfeiture rate based on our historical experience. We allocated our stock-based compensation expenses entirely to IG&A expenses because the proportional expenses that would have been allocated to direct costs are not material. No stock-based compensation expense related to our ESPP was recognized during the year ended December 29, 2006 because our ESPP qualifies as a non-compensatory plan under SFAS 123(R).

The following table presents our stock-based compensation expenses related to restricted stock awards and units, and the related income tax benefits recognized for the years ended December 29, 2006, December 30, 2005, and October 31, 2004 and the two months ended December 31, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Years Ended		Two Months	
	December 29, 2006	December 30, 2005	Ended December 31, 2004	Year Ended October 31, 2004
	(in millions)			
Stock-based compensation expenses:				
Restricted stock awards and units	\$ 11.8	\$ 6.1	\$ 1.1	\$ 4.4
Stock options	6.6	—	—	—
Stock-based compensation expenses	\$ 18.4	\$ 6.1	\$ 1.1	\$ 4.4
Total income tax benefits recognized in our net income related to stock-based compensation expenses	\$ 6.9	\$ 2.4	\$ 0.5	\$ 2.6

The following table presents the reduction in our income before income taxes, net income, and basic and diluted earnings per share as a result of adopting SFAS 123(R).

	Year Ended December 29, 2006 (In millions, except per share data)
Income before income taxes	\$ 6.6
Net income	\$ 3.8
Basic earnings per share	\$.07
Diluted earnings per share	\$.07

Prior to the adoption of SFAS 123(R), we presented the tax benefits from exercises and vesting of stock-based compensation awards in operating cash flows. As a result of adopting SFAS 123(R), tax benefits resulting from tax deductions in excess of the compensation expense recognized for these stock-based compensation awards are classified as a financing cash inflow and as an operating cash outflow. Cash proceeds generated from employee stock option exercises and purchases by employees under our ESPP for the years ended December 29, 2006, December 30, 2005, and October 31, 2004 and the two months ended December 31, 2004 are summarized below.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In millions)			
Proceeds from employee options exercises and purchases by employees under ESPP	\$ 24.0	\$ 38.9	\$ 5.2	\$ 26.6

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Employee Stock Purchase Plan

Our ESPP allowed eligible employees to purchase shares of common stock through payroll deductions of up to 10% of their compensation, subject to Internal Revenue Code limitations, at a price of 85% of the lower of the fair market value as of the beginning or the end of each of the six-month offering periods, which commences on January 1 and July 1 of each year. If the first or last day of the offering period ended on the non-trading day, the fair market value of the preceding day would be used as the purchase price of each share of common stock. Contributions are credited to each participant's account on the last day of each offering period. Effective January 1, 2006, we modified our ESPP to allow employees to purchase common stock at a price of 95% of the fair market value as of the end of each of the six-month offering periods.

Effective January 1, 2006, we modified our ESPP to reduce the purchase discount of our common stock from 15% to 5% of the fair market value and to apply the discount only at the end of each of the six-month offering periods. Accordingly, we did not recognize any compensation expense for common stock purchased through our ESPP. Prior to the adoption of SFAS 123(R), we also did not recognize any compensation expense for common stock issued to employees through our ESPP in accordance with a specific exception under APB 25.

For the years ended December 29, 2006, December 30, 2005, and October 31, 2004, employees purchased 381,113 shares, 549,967 shares and 637,570 shares under our ESPP, respectively. There were no ESPP shares recorded during the two months ended December 31, 2004.

Restricted Stock Awards and Units

In light of the impact associated with the adoption of SFAS 123(R), since its adoption, we have issued only restricted stock awards and units, rather than stock options, to selected employees in order to minimize the volatility of our stock-based compensation expense. Restricted stock awards and units generally vest over service periods that range from three to four years. During fiscal year 2006, we also awarded restricted stock awards and units with both a service vesting condition and a performance vesting condition. The performance vesting condition was determined based on the achievement of annual financial targets established at the beginning of the fiscal year.

We continue to record compensation expense related to restricted stock awards and units over the applicable vesting periods as required previously under APB 25 and now under SFAS 123(R). Such compensation expense was measured at the fair market value of the restricted stock awards and units at the grant date. As of December 29, 2006, we had unrecognized stock-based compensation expense of \$45.1 million related to nonvested restricted stock awards and units. This expense is expected to be recognized over a weighted-average period of 2.83 years. The total fair values of shares vested and the grant date fair values of restricted stock awards and units granted during the years ended December 29, 2006 and December 30, 2005 are summarized below:

	December 29, 2006	December 30, 2005
	(In millions)	
Fair values of shares vested	\$ 8.1	\$ 10.9
Grant date fair values of restricted stock awards and units	\$ 45.1	\$ 13.1

URS CORPORATION AND SUBSIDIARIES
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A summary of the status and changes of our nonvested restricted stock awards and units, according to their contractual terms, as of December 29, 2006 and during the year ended December 29, 2006 are presented below:

	Twelve Months Ended December 29, 2006		
	Shares	Weighted–Average Grant Date Fair Value	
Nonvested at December 30, 2005	519,818	\$	33.96
Granted	1,037,018	\$	43.49
Vested	(187,636)	\$	31.33
Forfeited	(27,182)	\$	34.49
Nonvested at December 29, 2006	1,342,018	\$	41.68

Stock Incentive Plans

Stock options expire in ten years from the date of grant and vest over service periods that range from three to five years.

No stock options were granted during the year ended December 29, 2006. A summary of the status and changes of the stock options under our Stock Incentive Plans, according to the contractual terms, as of December 29, 2006 and for the year ended December 29, 2006 are presented below:

	Shares	Weighted–Average Exercise Price	Weighted–Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 30, 2005	3,076,128	\$ 22.18		
Exercised	(635,380)	\$ 20.53		
Forfeited	(72,440)	\$ 23.68		
Outstanding at December 29, 2006	2,368,308	\$ 22.56	5.87	\$ 48,039
Vested and expected to vest at December 29, 2006	2,349,086	\$ 22.50	5.87	\$ 47,963
Options exercisable at end of period	2,035,583	\$ 21.94	5.59	\$ 42,455
Weighted–average fair value of options granted during the period	—	\$ —		

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The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing price of \$42.85 as of December 29, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. A summary of the status and changes of our nonvested stock options, according to the contractual terms, as of December 29, 2006 and during the year ended December 29, 2006 are presented below:

		Twelve Months Ended December 29, 2006	
	Shares	Weighted-Average Grant Date Fair Value	
Nonvested at December 30, 2005	1,075,855	\$ 12.67	
Vested	(670,690)	\$ 12.10	
Forfeited	(72,440)	\$ 12.68	
Nonvested at December 29, 2006	332,725	\$ 14.38	

For the fiscal year ended December 29, 2006, the aggregate intrinsic value of stock options exercised, determined as of the date of option exercise, was \$14.4 million. As of December 29, 2006, we had unrecognized stock-based compensation expense of \$8.8 million related to nonvested stock option awards. This expense is expected to be recognized over a weighted-average period of 0.58 years. The total fair value of shares vested during the year ended December 29, 2006 was \$8.1 million.

The following table summarizes information about stock options outstanding at December 29, 2006, under our Stock Incentive Plans:

		Outstanding Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price		Exercisable Number Weighted-Average Exercise Price
Range of Exercise Prices	Number Outstanding			Exercisable	
\$10.18 – \$13.56	114,135	5.9	\$ 12.98	114,135	\$ 12.98
\$13.57 – \$16.95	140,924	3.0	\$ 15.28	140,924	\$ 15.28
\$16.96 – \$20.34	243,692	5.2	\$ 18.44	243,692	\$ 18.44
\$20.35 – \$23.73	710,386	5.0	\$ 22.03	710,386	\$ 22.03
\$23.74 – \$27.12	1,092,573	6.8	\$ 25.31	789,430	\$ 25.06
\$27.13 – \$30.51	50,000	8.0	\$ 29.31	25,000	\$ 29.24
\$30.52 – \$33.85	12,598	5.6	\$ 31.85	11,016	\$ 32.01
\$33.86 – \$37.61	4,000	8.5	\$ 34.75	1,000	\$ 34.00
	2,368,308	5.9	\$ 22.56	2,035,583	\$ 21.94

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Pro Forma Information for Periods Prior to the Adoption of SFAS 123(R)

For periods presented prior to the adoption of SFAS 123(R), we are required to disclose the pro forma results as if we had applied the fair value recognition provisions of SFAS 123. In prior periods, we used the Black–Scholes option pricing model to measure the estimated fair value of stock options and the ESPP and accounted for forfeitures as they occurred. During the year ended December 29, 2006, we did not grant stock options. We used the following assumptions to estimate stock option and ESPP compensation expense using the fair value method of accounting:

	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
Stock Incentive Plans			
Risk-free interest rates	4.00%–4.38%	4.2%–4.38%	3.80%–4.53%
Expected life	5.52 years	6.89 years	7.23 years
Volatility	44.14%	45.47%	45.80%
Expected dividends	None	None	None
Employee Stock Purchase Plans			
Risk-free interest rates	2.59%–3.53%	1.64%	0.96%–1.02%
Expected life	0.5 years	0.5 years	0.5 years
Volatility (1)	23.33%–27.24%	28.84%	34.31%–58.09%
Expected dividends	None	None	None

(1) Employees can participate in our ESPP semi-annually. As a result, there are two separate computations of the fair value of stock compensation expense during the years ended December 30, 2005, the two-month period ended December 31, 2004, and the year ended October 31, 2004.

If the compensation cost for awards under the Stock Incentive Plans and the ESPP had been determined in accordance with SFAS 123, our net income and earnings per share would have been reduced to the pro forma amounts indicated below:

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	Year Ended December 30, 2005 (In thousands, except per share data)	Two Months Ended December 31, 2004	Year Ended October 31, 2004
Numerator — Basic			
Net income:			
As reported	\$ 82,475	\$ 1,163	\$ 61,704
Add: Total stock-based compensation expense as reported, net of tax	3,736	540	2,643
Deduct: Total stock-based compensation expense determined under the fair value method for all awards, net of tax	12,318	1,888	11,922
Pro forma net income (loss)	\$ 73,893	\$ (185)	\$ 52,425
Denominator — Basic			
Weighted-average common stock shares outstanding	46,742	43,643	39,123
Basic earnings per share:			
As reported	\$ 1.76	\$.03	\$ 1.58
Pro forma	\$ 1.58	\$.00	\$ 1.34
Numerator — Diluted			
Net income:			
As reported	\$ 82,475	\$ 1,163	\$ 61,704
Add: Total stock-based compensation expense as reported, net of tax	3,736	540	2,643
Deduct: Total stock-based compensation expense determined under the fair value method for all awards, net of tax	12,318	1,888	11,922
Pro forma net income (loss)	\$ 73,893	\$ (185)	\$ 52,425
Denominator — Diluted			
Weighted-average common stock shares outstanding	47,826	45,313	40,354
Diluted earnings per share:			
As reported	\$ 1.72	\$.03	\$ 1.53
Pro forma	\$ 1.55	\$.00	\$ 1.30

NOTE 10. EMPLOYEE RETIREMENT AND POST-RETIREMENT MEDICAL PLANS

Effective January 1, 2005, we have a single domestic defined contribution retirement plan, the URS Corporation 401(k) Plan (“401(k) Plan”). This 401(k) Plan covers all full-time employees who are at least 18 years of age. Employer contributions to this 401(k) Plan or its predecessor plans are made at the discretion of the Board of Directors. We made contributions of \$21.2 million, \$15.9 million, and \$13.0 million to the 401(k) Plan or its predecessor plans during the years ended December 29, 2006, December 31, 2005 and October 31, 2004, respectively. For the two months ended December 31, 2004, we did not make any contributions to the predecessor plans.

Some of our foreign subsidiaries have contributory trustee retirement plans covering substantially all of their employees. We made contributions in the amounts of approximately \$6.7 million, \$6.0 million and \$4.4 million for the fiscal years ended December 29, 2006, December 30, 2005 and October 31, 2004, respectively. For the two months ended December 31, 2004, we made contributions of \$0.9 million to the contributory trustee retirement plans.

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As of December 29, 2006, we adopted the recognition provisions of SFAS 158, which requires (1) recognition on the balance sheet of an asset for a defined benefit plan's overfunded status or a liability for a defined benefit plan's underfunded status, (2) measurement of a defined benefit plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (3) recognition, as a component of other comprehensive income, the changes in a defined benefit plan's funded status that are not recognized as components of net periodic benefit cost. The following table summarizes the incremental effect of the adoption of SFAS 158 on our consolidated financial statements as of December 29, 2006.

Incremental Effect of Applying SFAS 158

	Before Application of SFAS 158	Adjustments (in thousands)	After Application of SFAS 158
Liabilities:			
Current portion of accrued pension liability included in accrued expenses and other	\$ 1,027	\$ —	\$ 1,027
Accrued pension liability included in other long-term liabilities	64,609	7,082	71,691
Deferred tax liabilities	20,532	(2,725)	17,808
Stockholders' equity:			
Accumulated other comprehensive income (loss)	719	(4,357)	(3,638)

Executive Plan

During December 2006, we entered into a new employment agreement with our Chief Executive Officer ("CEO"), which included an amended and restated Supplemental Executive Retirement Agreement (the "Executive Plan") to provide the CEO with an annual lifetime retirement benefit and other benefits. Benefits are based on the CEO's final average annual compensation and his age at the time of his employment termination. "Final average compensation" means the sum of the CEO's base salary plus target bonus established for him under our incentive compensation program during a consecutive 36-month period in his final 60 months of employment in which the average was the highest, but, solely for purposes of the calculations, the base salary shall not be higher than \$950,000 nor shall the target bonus be higher than 120% of the base salary.

As there is no funding requirement for the Executive Plan, the benefit payable is "unfunded," as that term is used in the Employee Retirement Income Securities Act ("ERISA"). However, we are obligated to fund the benefit payable into a rabbi trust upon receiving a 15-day notice, his death or the termination of his employment for any reason. As of December 29, 2006 and December 30, 2005, there were no plan assets under the Executive Plan. We measure pension costs according to actuarial valuations using the projected unit credit method, which incorporates a projected salary increase in the actuarial present value of future retirement benefits. This method is used to determine pension cost for financial accounting purposes.

The discount rate for the Executive Plan was derived using the bond model of the EG&G Division's defined benefit pension plan ("EG&G Pension Plan") and was adjusted for the benefit duration of two years for the Executive Plan. The Citigroup Pension Discount Spot Rate Curve was used to determine the yield differential for cash flow streams from appropriate quality bonds as of the measurement date. The yield differential was applied to the bond model rate of the EG&G Pension Plan to derive the discount rate.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our estimates of benefit obligations and assumptions used to measure those obligations for the Executive Plan as of December 29, 2006 and December 30, 2005, were as follows:

	December 29, 2006	December 30, 2005
	(In thousands, except percentages)	
Change in projected benefit obligation (PBO):		
PBO at beginning of the year	\$ 11,179	\$ 10,456
Service cost	2,171	—
Interest cost	652	523
Actuarial (gain) loss	(2,480)	200
PBO at the end of the year	\$ 11,522	\$ 11,179
Funded status reconciliation:		
Projected benefit obligation	\$ 11,522	\$ 11,179
Unrecognized actuarial loss	—	(1,210)
Net amount recognized	\$ 11,522	\$ 9,969
Amounts recognized in our balance sheet consist of:		
Accrued pension liability included in other long-term liabilities	\$ 11,522	\$ 11,179
Accumulated other comprehensive income	—	(1,210)
Net amount recognized	\$ 11,522	\$ 9,969
Additional information:		
Amount included in other comprehensive income arising from a change in minimum pension liability	\$ 1,605	\$ 200
Accumulated benefit obligation	\$ 11,522	\$ 11,179
	December 29, 2006	December 30, 2005
Weighted-average assumptions used to determine benefit obligations at year-end:		
Discount rate	5.3%	5.0%
Rate of compensation increase	—%	5.0%
Expected long-term rate of return on plan assets	N/A	N/A
Measurement dates	12/29/2006	12/30/2005

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Components of net periodic pension costs for the years ended December 29, 2006 and December 30, 2005, two months ended December 31, 2004, and the year ended October 31, 2004 were as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In thousands)			
Service cost	\$ 2,171	\$ —	\$ —	\$ 911
Interest cost	652	523	86	435
Prior service cost	108	—	—	—
Recognized actuarial loss	49	—	—	—
Net periodic pension cost	\$ 2,980	\$ 523	\$ 86	\$ 1,346
Weighted-average assumptions used to determine net periodic pension cost at year-end:				
Discount rate	5.0%	5.0%	5.0%	5.0%
Rate of compensation increase	5.0%	5.0%	5.0%	5.0%
Expected long-term rate of return on plan assets	N/A	N/A	N/A	N/A
Measurement dates	12/30/2005	12/31/2004	10/31/2004	10/31/2003

As of December 29, 2006, we did not expect to have any estimated net gain (loss) in accumulated other comprehensive income, that will be recognized as components of net periodic benefit cost over the next fiscal year. In addition, the estimated future benefit payments to be paid out in the next ten years are as follows:

For fiscal years ending December 31,	Estimated future benefit payments (in thousands)
2007	\$ —
2008	—
2009	14,839
2010	—
2011	—
Next five fiscal years thereafter	—
	\$ 14,839

Radian SERP and SCA

The URS Division maintains two non-qualified defined benefit plans, a supplemental executive retirement plan and a salary continuation agreement (the “Radian SERP and SCA”), which were acquired as part of the Dames & Moore Group, Inc. acquisition in 1999. These benefit plans cover a selected group of URS Division's employees and former employees who will continue to be eligible to participate in these benefit plans. Their purpose is to supplement the retirement benefits provided by other benefit plans upon the participants attaining minimum age and years of service requirements.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Radian SERP and SCA provide benefits based on fixed amounts of historical compensation and therefore, increases in compensation do not need to be considered in our calculation of the projected benefit obligation or periodic pension cost related to these plans. As there is no funding requirement for the Radian SERP and SCA, the benefit payable is “unfunded,” as that term is used in ERISA. As of December 29, 2006 and December 30, 2005, there were no plan assets under the Radian SERP and SCA as these plans are unfunded. However, at December 29, 2006 and 2005, we had designated and deposited \$0.8 million and \$1.5 million, respectively, in a grantor trust account for the Radian SERP. Such trust does not cause the plan to cease to be “unfunded” for ERISA purposes, because the assets of the trust may be reached by creditors in the event of insolvency or bankruptcy of the plan sponsor. The decrease in our designated deposit balance from December 30, 2005 to December 29, 2006 was due to benefit payments made during fiscal 2006. The URS Division also has a post-retirement benefit program that provides medical insurance benefits to participants upon meeting minimum age and years of service requirements. This post-retirement benefit program is also unfunded and the historical costs, accumulated benefit obligation and projected benefit obligation for this post-retirement benefit program are not significant. We measure pension costs according to actuarial valuations and the projected unit credit method is used to determine pension cost for financial accounting purposes.

The discount rate for the Radian SERP and SCA was derived using the bond model of EG&G Pension Plan and was adjusted for the benefit duration of nine and five years for the Radian SERP and SCA, respectively. The Citigroup Pension Discount Spot Rate Curve was used to determine the yield differential for cash flow streams from appropriate quality bonds as of the measurement date. The yield differential was applied to the bond model rate of the EG&G Pension Plan to derive the discount rate.

Our estimates of benefit obligations and assumptions used to measure those obligations for the Radian SERP and SCA as of December 29, 2006 and December 30, 2005 were as follows:

	December 29, 2006	December 30, 2005
	(In thousands, except percentages)	
Change in PBO:		
PBO at the beginning of the year	\$ 11,561	\$ 11,063
Service cost	2	2
Interest cost	627	582
Actuarial (gain) loss	(9)	889
Benefits paid	(989)	(975)
PBO at the end of the year	\$ 11,192	\$ 11,561
Change in plan assets:		
Fair value of the plan assets at the beginning of the year	\$ —	\$ —
Employer contributions	989	975
Benefits paid	(989)	(975)
Fair value of the plan assets at the end of the year	\$ —	\$ —
Funded status reconciliation:		
Projected benefit obligation	\$ 11,192	\$ 11,561
Unrecognized actuarial loss	—	(1,879)
Net amount recognized	\$ 11,192	\$ 9,682
Amounts recognized in our balance sheet consist of:		
Accrued pension liability included in other long-term liabilities	\$ 11,192	\$ 11,707
Accumulated other comprehensive loss	(1,801)	(2,025)
Net amount recognized	\$ 9,391	\$ 9,682

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	<u>December 29,</u> <u>2006</u>	<u>December 30,</u> <u>2005</u>
	(In thousands, except percentages)	
Additional information:		
Amount included in other comprehensive income arising from a change in minimum pension liability	\$ 225	\$ 804
Accumulated benefit obligation	\$ 11,192	\$ 11,561
Weighted-average assumptions used to determine benefit obligations at year-end:		
Discount rate	5.80%	5.70%
Rate of compensation increase	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A
Mortality	RP 2000	RP 2000
Measurement date	12/29/2006	12/30/2005

Components of net periodic pension costs for the years ended December 29, 2006 and December 30, 2005, two months ended December 31, 2004, and the year ended October 31, 2004 were as follows:

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In thousands, except percentages)			
Service cost	\$ 2	\$ 2	\$ —	\$ 2
Interest cost	627	582	104	710
Recognized actuarial loss	69	69	9	14
Net periodic pension cost	\$ 698	\$ 653	\$ 113	\$ 726

Weighted-average assumptions to determine net periodic pension cost for years ended:				
Discount rate	5.70%	5.70%	5.50%	6.25%
Rate of compensation increase	N/A	N/A	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A	N/A	N/A
Mortality	RP 2000	RP 2000	GAM 1983	GAM 1983
Measurement date	12/30/2005	12/31/2004	10/31/2004	10/31/2003

As of December 29, 2006, the estimated portions of the net loss and the prior service cost (credit) in accumulated other comprehensive income, that will be recognized as components of net periodic benefit cost over the next fiscal year, were \$67 thousand and \$0, respectively. In addition, the estimated future benefit payments to be paid out in the next ten years are as follows:

For fiscal years ending December 31,	Estimated future benefit payments (in thousands)
2007	\$ 1,027
2008	1,027
2009	1,023
2010	1,008
2011	974
Next five fiscal years thereafter	4,344
	\$ 9,403

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Final Salary Pension Fund

As part of the acquisition of Dames & Moore Group, Inc. in 1999, we assumed the Dames & Moore Final Salary Pension Plan in the United Kingdom (“Final Salary Pension Fund”). The Final Salary Pension Fund provides retirement benefit payments for the life of participating retired employees and their spouses. We determined the funding costs of the Final Salary Pension Fund using the most recent April 2004 triennial actuarial valuation. The projected unit credit method is used to determine our pension cost for financial accounting purpose. On December 21, 2006, we made a decision pursuant to a formal curtailment plan to eliminate the accrual of defined benefits for all future benefits under the Final Salary Pension Fund. Future funding requirements will be determined by the next triennial actuarial valuation.

The discount rate for the Final Salary Pension Fund was derived based on the Barclays Capiatal AA Corporate Bond Index with considerations of the currency and term of the Final Salary Pension Plan.

Our estimates of benefit obligations and assumptions used to measure those obligations for the Final Salary Pension Fund at December 29, 2006 were as follows:

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 29, 2006
(In thousands, except percentages)	
Change in PBO:	
PBO at the beginning of the year	\$ 18,957
Service cost	975
Interest cost	975
Participant contributions	110
Curtailment gain (1)	(1,290)
Actuarial loss	1,937
Benefit paid	(41)
PBO at the end of the year	\$ 21,623
Change in plan assets:	
Fair value of the plan assets at the beginning of the year	\$ 9,669
Employer contributions	472
Participant contributions	110
Actual return on plan assets	753
Benefits paid	(41)
Fair value of the plan assets at the end of the year	\$ 10,963
Funded status reconciliation:	
Projected benefit obligation	\$ 10,659
Unrecognized actuarial loss	—
Net amount recognized	\$ 10,659
Amounts recognized in our balance sheet consist of:	
Accrued pension liability included in other long-term liabilities	\$ 10,659
Accumulated other comprehensive loss	(5,135)
Net amount recognized	\$ 5,524
Additional information:	
Amount included in other comprehensive income arising from a change in minimum pension liability	\$ 147
Accumulated benefit obligation	\$ 21,623
Weighted-average assumptions used to determine benefit obligations at year-end:	
Discount rate	5.00%
Rate of compensation increase	4.20%
Expected long-term rate of return on plan assets	4.50%
Mortality	PXA92
Measurement date	12/31/2006

(1) Pursuant to a formal curtailment plan to eliminate the accrual of defined benefits for all future services, the Final Salary Pension Fund reflects a curtailment gain of \$1.3 million, which decreased the projected benefit obligation and decreased the unrecognized actuarial net loss.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Components of net periodic pension costs for the years ended December 29, 2006 were as follows:

	Year Ended December 29, 2006
(In thousands, except percentages)	
Service cost	\$ 910
Interest cost	910
Expected return on plan assets	(419)
Amortization of:	
Net actuarial loss	183
Net pension cost	\$ 1,584
Weighted-average assumptions to determine net periodic pension cost for years ended:	
Discount rate	5.00%
Rate of compensation increase	3.80%
Expected long-term rate of return on plan assets (1)	4.50%
Mortality	PXA92
Measurement date	12/31/2005

(1) Our assumption used in determining the expected long-term rate of return on assets was based on the long term expectation for each asset class at the measurement date. The Final Salary Pension Fund assets are all invested in an insurance policy based on the estimated long-term expected rate of return on this contract. The expected long-term rate of return was 4.5%, net of expenses.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Final Salary Pension Fund asset allocations at December 29, 2006 by asset category were as follows:

	December 29, 2006
Asset Category:	
Equity securities (1)	28.3%
Properties	25.7%
Fixed-income securities	23.4%
Cash	22.6%
Total	100%

(1) Equity securities do not include investment in our common shares at December 29, 2006, except for possible investments made indirectly through indexed mutual funds.

The allocation percentages are based on our investment strategy established for the Final Salary Pension Fund, which is designed to achieve a long term objective of return, while minimizing downside risk. Our investment strategy was reviewed in 2005 and the current target asset allocation is as follows:

	Current target asset allocation
Equity securities	30%
Properties	25%
Fixed-income securities	35%
Cash	10%

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 29, 2006, the estimated portions of the net loss and the transition obligation in accumulated other comprehensive income, that will be recognized as components of net periodic benefit cost over the next fiscal year, are \$0.2 million and \$0, respectively. In addition, the estimated future benefit payments to be paid out in the next ten years are as follows:

For fiscal years ending December 31,	Estimated future benefit payments (in thousands)
2007	\$ 8
2008	12
2009	16
2010	22
2011	27
Next five fiscal years thereafter	470
	\$ 555

We made cash contributions of approximately \$0.4 million during fiscal year 2006 and we currently expect to make approximately \$0.5 million of cash contributions to the Final Salary Pension Fund for fiscal year 2007.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

EG&G Pension Plan

The EG&G Division maintains the EG&G Pension Plan and Post–retirement Medical Plan (“EG&G Post–retirement Medical Plan”). These plans cover some of the EG&G Division's hourly and salaried employees as well as the EG&G employees of a joint venture in which the EG&G Division participates. The EG&G Pension Plan provides retirement benefit payments for the life of participating retired employees. We measure our pension costs according to actuarial valuations and the projected unit credit method is used to determine pension costs for financial accounting purposes.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The discount rate for the EG&G pension plan was derived using a “bond model” prepared by our external actuary. The model assumes that we purchase bonds with a credit rating of AA or better by Moody's at prices based on a current bond yield and bond quality. The annual cash flows from the bonds are used to cover the projected benefits under the pension plan. The model develops the yield on this portfolio of bonds as of the measurement date. Sixty years of projected benefit payments are examined. Any residual benefit payments are deemed to be immaterial to the results. If cash flows from the bond portfolio exceed the benefit payments in early years, the initial value of the portfolio is adjusted to reflect the present value of the excess cash flow. The weighted average of the bond yields is determined based upon the estimated retirement payments in order to derive the discount rate used in calculating the present value of the pension plan obligations. The discount rate derived is compared to the discount rates used by other publicly traded companies. The discount rate is deemed reasonable if it falls within the 25th to 75th percentile of all discount rates used.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our estimates of benefit obligations and assumptions used to measure those obligations for the EG&G pension plan at December 29, 2006 and December 30, 2005 were as follows:

	December 29, 2006	December 30, 2005
	(In thousands, except percentages)	
Change in PBO:		
PBO at beginning of year	\$ 165,901	\$ 151,490
Service cost	7,580	6,923
Interest cost	9,140	8,070
Benefits paid	(6,835)	(5,640)
Actuarial loss (gain)	(2,736)	5,058
Benefit obligation at end of year	\$ 173,050	\$ 165,901
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 123,671	\$ 115,762
Actual return on plan assets	12,091	6,124
Employer contributions	6,767	7,425
Benefits paid and expenses	(6,835)	(5,640)
Fair value of plan assets at end of year	\$ 135,694	\$ 123,671
Under funded status reconciliation:		
Under funded status	\$ 37,356	\$ 42,230
Unrecognized net prior service cost	—	14,510
Unrecognized net actuarial loss	—	(28,475)
Net amount recognized	\$ 37,356	\$ 28,265
Amounts recognized in our balance sheet consist of:		
Accrued benefit liability included in other long-term liabilities	\$ 37,356	\$ 36,242
Accumulated other comprehensive loss	(10,626)	(7,977)
Net amount recognized	\$ 26,730	\$ 28,265
Additional information:		
Amount included in other comprehensive income arising from a change in minimum pension liability	\$ 4,294	\$ 7,977
Accumulated benefit obligation	\$ 166,718	\$ 159,914
Weighted-average assumptions used to determine benefit obligations at year end:		
Discount rate	5.90%	5.75%
Rate of compensation increase	4.50%	4.50%
Measurement date	12/29/2006	12/30/2005

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Net periodic pension costs for the EG&G Pension Plan included the following components for the years ended December 29, 2006 and December 30, 2005, two months ended December 31, 2004, and the year ended October 31, 2004.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
(In thousands, except for percentages)				
Service cost	\$ 7,580	\$ 6,923	\$ 1,025	\$ 5,052
Interest cost	9,140	8,070	1,434	8,014
Expected return on assets	(10,396)	(9,176)	(1,516)	(8,480)
Amortization of prior service cost	(2,073)	(2,073)	(345)	(1,728)
Recognized actuarial loss	981	731	298	102
Net periodic cost	\$ 5,232	\$ 4,475	\$ 896	\$ 2,960
Weighted-average assumptions used to determine net periodic cost for years ended:				
Discount rate	5.75%	5.75%	5.75%	6.25%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%
Expected long-term rate of return on plan assets (1)	8.50%	8.50%	8.50%	8.50%
Measurement dates (2)	12/30/2005	12/31/2004	10/31/2004	10/31/2003, 12/31/2003

- (1) Our assumption used in determining the expected long-term rate of return on plan assets was based on an actuarial analysis. This analysis includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent analysis, our expected long-term rate of return assumption for our EG&G Pension Plan will remain at 8.5%.

- (2) We remeasured our EG&G Pension Plan at December 31, 2003 due to the plan amendment included above.

The EG&G Pension Plan asset allocations at December 29, 2006 and December 30, 2005 by asset category were as follows:

Asset Category:	December 29, 2006	December 30, 2005
Equity securities (1)	56.4%	55.6%
Fixed-income securities	43.6%	44.3%
Cash	—%	0.1%
Total	100%	100%

- (1) Equity securities do not include investment in our common shares at both December 29, 2006 and December 30, 2005, except for possible investments made indirectly through indexed mutual funds.

We maintain our target allocation percentages based on our investment policy established for the EG&G Pension Plan, which is designed to achieve long term objectives of return, while mitigating against downside risk and considering expected cash flows. Our investment policy is reviewed from time to time to ensure consistency with our long term objective of funding at or near to the projected benefit obligation. The current target asset allocation is as follows:

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Current target asset allocation
Fixed-income securities	45%
Domestic Equity	45%
Non-U.S. Equity	10%

We made cash contributions of approximately \$6.8 million during fiscal year 2006 and we expect to make cash contributions during fiscal year 2007 of approximately \$8.0 million to the EG&G Pension Plan.

As of December 29, 2006, the estimated portions of the net loss and the prior service credit in accumulated other comprehensive income, that will be recognized as components of net periodic benefit cost over the next fiscal year, are \$1 million and \$2.1 million, respectively. In addition, the estimated future benefit payments to be paid out in the next ten years are as follows:

For fiscal years ending December 31,	Estimated future benefit payments (in thousands)
2007	\$ 6,866
2008	7,337
2009	7,869
2010	8,430
2011	9,005
Next five fiscal years thereafter	52,955
	\$ 92,462

EG&G Post-retirement Medical Plan

The EG&G Post-retirement Medical Plan provides medical benefits to employees that meet eligibility requirements. All of these benefits may be subject to deductibles, co-payment provisions, and other limitations. Based on an analysis of the Medicare Act, FSP 106-2, and facts available to us, we formed a conclusion that the majority of the health care benefits we provide to retirees is not actuarially equivalent to Medicare Part D and therefore, our measures of the accumulated post-retirement benefit obligation and net periodic pension costs of our post-retirement plans do not reflect any amount associated with the subsidy. We measure our pension costs according to actuarial valuations and the projected unit credit method is used to determine pension costs for financial accounting purposes.

The discount rate for the EG&G Post-retirement Medical Plan was derived using the bond model of the EG&G Pension Plan as described above and was adjusted for the benefit duration of twelve years for the EG&G Post-retirement Medical Plan. The Citigroup Pension Discount Spot Rate Curve was used to determine the yield differential for cash flow streams from appropriate quality bonds as of the measurement date. The yield differential was applied to the bond model rate of the EG&G Pension Plan to derive the discount rate. Our estimates of benefit obligations and assumptions used to measure those obligations of the EG&G Post-retirement Medical Plan at December 29, 2006 and December 30, 2005 were as follows:

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 29, 2006	December 30, 2005
	(In thousands)	
Change in accumulated post–retirement benefit obligation:		
Accumulated post–retirement benefit obligation at beginning of year	\$ 5,319	\$ 4,846
Service cost	252	268
Interest cost	305	275
Benefits paid	(18)	(132)
Actuarial (gain) loss	(363)	62
Accumulated post–retirement benefit obligation at end of year	\$ 5,495	\$ 5,319
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 3,198	\$ 3,071
Actual return on plan assets	308	145
Employer contributions	18	41
Participant contributions	299	—
Benefits paid and expensed	(317)	(59)
Fair value of plan assets at end of year	\$ 3,506	\$ 3,198
Funded status reconciliation:		
Under funded status	\$ 1,989	\$ 2,121
Unrecognized net loss	—	(1,450)
Net amount recognized	\$ 1,989	\$ 671
Amounts recognized in our balance sheets consist of		
Accrued post–retirement benefit liability included in other long–term liabilities	\$ 1,989	\$ 671
Net amount recognized	\$ 1,989	\$ 671

	December 29, 2006	December 30, 2005
Weighted–average assumptions used to determine benefit obligations at year end:		
Discount rate	5.90%	5.75 %
Rate of compensation increase	N/A	N/A
Measurement date	12/29/2006	12/30/2005

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Net periodic pension and other post-retirement benefit costs included the following components for the years ended December 29, 2006 and December 30, 2005, two months ended December 31, 2004, and the year ended October 31, 2004.

	Year Ended December 29, 2006	Year Ended December 30, 2005	Two Months Ended December 31, 2004	Year Ended October 31, 2004
	(In thousands, except percentages)			
Service cost	\$ 252	\$ 268	\$ 44	\$ 254
Interest cost	305	275	46	277
Expected return on assets	(272)	(261)	(41)	(290)
Recognized actuarial loss	93	73	15	8
Net periodic cost	\$ 378	\$ 355	\$ 64	\$ 249
Weighted-average assumptions used to determine net periodic cost for years ended:				
Discount rate	5.75%	5.75%	5.75%	6.25%
Rate of compensation increase	N/A	N/A	N/A	N/A
Expected long-term rate of return on plan assets (1)	8.50%	8.50%	8.50%	8.50%
Measurement dates	12/30/2005	12/31/2004	10/31/2004	10/31/2003

- (1) Our assumption used in determining the expected long-term rate of return on plan assets was based on an actuarial analysis. This analysis includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent analysis, our expected long-term rate of return assumption for our EG&G Post-retirement Medical Plan will remain at 8.5%.

	December 29, 2006	December 30, 2005
Assumed health care cost trend rates at year-end:		
Health care cost trend rate assumed for next year	10.00%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.50%
Year that the rate reaches the ultimate trend rate	2012	2009

Assumed health care costs trend rates have a significant effect on the health care plan. A one percentage point change in assumed health care costs trend rates would have the following effects on net periodic cost for the fiscal year ended December 29, 2006 and the accumulated post-retirement benefit obligation as of December 29, 2006:

	1% Point Increase (In thousands)	Decrease (In thousands)
Effect on total of service and interest cost components	\$ 4	\$ (4)
Effect on post-retirement benefit obligation	65	(59)

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

EG&G Post-retirement Medical Plan asset allocations at December 29, 2006 and December 30, 2005 by asset category were as follows:

	December 29, 2006	December 30, 2005
Asset Category:		
Equity securities (1)	56.4%	55.6%
Fixed-income securities	43.6%	44.3%
Cash	—%	0.1%
Total	100%	100%

(1) Equity securities do not include investment in our common shares at both December 29, 2006 and December 30, 2005, except for possible investments made indirectly through indexed mutual funds.

We maintain our target allocation percentages based on our investment policy established for the EG&G Post-retirement Medical Plan, which is designed to achieve long term objectives of return, while mitigating against downside risk and considering expected cash flows. Our investment policy is reviewed from time to time to ensure consistency with our long term objective of funding at or near to the accumulated post-retirement benefit obligation. The current target asset allocation is as follows:

	Current target asset allocation
Fixed income	45%
Domestic equity	45%
Non-U.S. equity	10%

We currently expect to make approximately \$0.2 million cash contributions to the EG&G Post-retirement Medical Plan for fiscal year 2007. As of December 29, 2006, the estimated portions of the net loss and the prior service cost (credit) in accumulated other comprehensive income, that will be recognized as components of net periodic benefit cost over the next fiscal year, are \$93 thousand and \$0, respectively. In addition, the estimated future benefit payments to be paid out in the next ten years are as follows:

For fiscal years ending December 30,	Estimated future benefit payments (in thousands)
2007	\$ 232
2008	266
2009	302
2010	330
2011	360
Next five fiscal years thereafter	1,974
	\$ 3,464

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The accumulated balances and reporting period activities related to each component of other comprehensive income (loss) are summarized as follows:

	Defined Benefit Pension Plans (Net of Tax Effect)	Foreign Currency Translation Adjustments (In thousands)	Accumulated Other Comprehensive Income (Loss)
Balances at October 31, 2003	\$ (4,734)	\$ 3,828	\$ (906)
Fiscal year 2004 adjustments	(2,189)	3,490	1,301
Balances at October 31, 2004	(6,923)	7,318	395
Transition period 2004 adjustments	4,141	1,882	6,023
Balances at December 31, 2004	(2,782)	9,200	6,418
Fiscal year 2005 adjustments	(4,493)	(5,910)	(10,403)
Balances at December 30, 2005	(7,275)	3,290	(3,985)
Adoption of SFAS 158	(4,357)	—	(4,357)
Fiscal year 2006 adjustments	582	4,122	4,704
Balances at December 29, 2006	\$ (11,050)	\$ 7,412	\$ (3,638)

	Before-Tax Amount	Tax (Expense) or Benefit (In thousands)	Net-of-Tax Amount
Balances at October 31, 2003	\$ (906)	\$ —	\$ (906)
Minimum pension liability adjustments	(4,018)	1,829	(2,189)
Foreign currency translation adjustments	3,490	—	3,490
Fiscal year 2004 adjustments	(528)	1,829	1,301
Balances at October 31, 2004	(1,434)	1,829	395
Minimum pension liability adjustments	6,811	(2,670)	4,141
Foreign currency translation adjustments	1,882	—	1,882
Transition period 2004 adjustments	8,693	(2,670)	6,023
Balances at December 31, 2004	7,259	(841)	6,418
Minimum pension liability adjustments	(9,262)	4,769	(4,493)
Foreign currency translation adjustments	(5,910)	—	(5,910)
Fiscal year 2005 adjustments	(15,172)	4,769	(10,403)
Balances at December 30, 2005	(7,913)	3,928	(3,985)
Defined benefit pension plans:			
Minimum pension liability adjustments	4,527	(3,945)	582
Adoption of SFAS 158	(7,082)	2,725	(4,357)
Foreign currency translation adjustments	4,122	—	4,122
Fiscal year 2006 adjustments	1,567	(1,220)	347
Balances at December 29, 2006	\$ (6,346)	\$ 2,708	\$ (3,638)

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12. RECEIVABLE ALLOWANCES

Receivable allowances are comprised of an allowance for losses and an allowance for doubtful accounts. We determine these amounts based on historical experience and other currently available information. The following table summarizes the activities in the allowance for losses and doubtful accounts from the beginning of the periods to the end of the periods.

	Balance at the Beginning of the Periods	Additions (In thousands)	Deductions	Balance at the End of the Periods
Year ended December 29, 2006				
Allowances for losses and doubtful accounts	\$ 44,293	\$ 29,639	\$ (23,474)	\$ 50,458
Year ended December 30, 2005				
Allowances for losses and doubtful accounts	\$ 38,719	\$ 36,466	\$ (30,892)	\$ 44,293
Two months ended December 31, 2004				
Allowances for losses and doubtful accounts	\$ 37,292	\$ 5,873	\$ (4,446)	\$ 38,719
Year ended October 31, 2004				
Allowances for losses and doubtful accounts	\$ 33,106	\$ 28,402	\$ (24,216)	\$ 37,292

NOTE 13. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table sets forth selected quarterly financial data for the years ended December 29, 2006 and December 30, 2005 that is derived from audited consolidated financial statements. We also included the selected financial data for the two months ended December 31, 2004. The selected quarterly financial data presented below should be read in conjunction with the rest of the information in this report.

Operating income is defined as income before income taxes and interest expense.

	Fiscal 2006 Quarters Ended				
	March 31	June 30	September 29	December 29	
	(In thousands, except per share data)				
Revenues	\$ 998,149	\$ 1,069,991	\$ 1,085,604	\$ 1,086,406	(2)
Gross Profit	\$ 366,845	\$ 379,060	\$ 376,680	\$ 379,737	
Operating income (1)	\$ 47,674	\$ 62,186	\$ 58,962	\$ 49,967	(2)
Income tax expense	\$ 17,993	\$ 23,599	\$ 24,318	\$ 18,883	
Net income	\$ 24,188	\$ 32,638	\$ 29,903	\$ 26,283	
Earnings per share:					
Basic	\$.48	\$.64	\$.59	\$.52	
Diluted	\$.47	\$.63	\$.58	\$.51	
Weighted-average number of shares:					
Basic	50,302	50,635	50,945	50,938	
Diluted	51,315	51,519	51,773	51,992	

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- (1) Indirect, general and administrative expenses for the 2006 fiscal year included stock-based compensation expense of \$6.6 million recorded in accordance with SFAS 123(R). There was no stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123, prior to fiscal 2006 because we did not adopt the recognition provisions of SFAS 123. See further discussion in Note 9, “Stockholders’ Equity.”
- (2) During the fourth quarter 2006, we revised previous estimates and made adjustments to accruals of incurred but not reported medical claims and accruals relating to the Executive Plan. The estimated portion of these adjustments relating to periods prior to the fourth quarter was \$3.4 million to operating income, and was not considered significant to current or previously reported operating results.

	Fiscal 2005 Quarters Ended				
	April 1	July 1	September	December	
			30	30	
(In thousands, except per share data)					
Revenues	\$ 922,000	\$ 961,616	\$ 962,940	\$ 1,071,009	(1)
Gross Profit	\$ 333,161	\$ 340,999	\$ 335,741	\$ 352,126	
Operating income	\$ 44,619	\$ 22,937	\$ 53,740	\$ 53,126	
Income tax expense	\$ 13,960	\$ 5,060	\$ 19,620	\$ 21,720	(2)
Net income	\$ 20,087	\$ 7,617	\$ 28,837	\$ 25,934	(3)
Earnings per share:					
Basic	\$.46	\$.17	\$.59	\$.52	
Diluted	\$.45	\$.17	\$.58	\$.51	
Weighted-average number of shares:					
Basic	43,731	44,844	48,934	49,459	
Diluted	44,823	46,158	50,116	50,401	

- (1) Revenues, direct operating expenses and gross profit for the full year of 2005 include, out-of-period adjustments of \$55.9 million, \$52.3 million, and \$3.7 million, respectively, related to an enhanced methodology used to quantify period end accrued expenses, including related sub-contractor accruals for reimbursable or re-billable items.
- (2) Refer to Note 3, “Purchased Intangible Assets and Goodwill” for discussion of an adjustment, which we believe to be immaterial, to goodwill and deferred income taxes related to an August 2002 acquisition, which increased our income tax expense by \$3.6 million in the fourth quarter of 2005.
- (3) The net out-of-period items recorded in the fourth quarter of 2005 relating to the matters noted above and other individually immaterial adjustments was \$0.9 million. The effect of these adjustments, in our opinion, is immaterial to our financial position, results of operations and cash flows for any interim or annual period presented in these financial statements.

NOTE 14. RELATED PARTY TRANSACTIONS

On January 19, 2005, affiliates of Blum Capital Partners, L.P. (collectively, “Blum Affiliates”) sold 2,000,000 shares of our common stock in an underwritten secondary offering, pursuant to a registration statement that we previously filed in accordance with the terms of an existing registration rights agreement. The general partner of Blum Capital Partners, L.P. was a member of our Board of Directors.

On October 21, 2005, according to the terms of the registration rights agreement, Blum Affiliates requested that we register their remaining 3,580,907 shares of our common stock, which they sold on December 6, 2005.

URS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15. VARIABLE INTEREST ENTITIES

We participate in joint ventures formed for the purpose of bidding, negotiating and executing projects. Sometimes we function as the sponsor or manager of the projects performed by the joint venture. Some of our joint ventures are variable interest entities (“VIE”) as defined by FIN 46(R). Accordingly, beginning April 30, 2004, we began consolidating one of the material joint ventures, Advatech, LLC. (“Advatech”), for which we are the primary beneficiary. We have not guaranteed any debt on behalf of Advatech, nor do any of the creditors of Advatech have recourse to our general credit. Advatech provides design, engineering, construction and construction management services to its customers relating to specific technology involving flue gas desulfurization processes. Advatech's total revenues were \$232.4 million and \$163.3 million for the years ended December 29, 2006 and December 30, 2005, respectively. In addition, the following assets of Advatech as of December 29, 2006 and December 30, 2005 were consolidated into our financial statements:

	December 29, 2006	December 30, 2005
	(In thousands)	
Cash	\$ 38,627	\$ 43,080
Net accounts receivable	64,839	24,280
Other assets	25,295	5,363
	\$ 128,761	\$ 72,723

Minority Interest

Minority interest represents the equity investment of minority owners in the income of joint ventures that we consolidate in our financial statements. We have historically included minority interest in other long-term liabilities because it was not material. Beginning in the first quarter of 2006, we have presented minority interest separately on our Consolidated Balance Sheet and our Consolidated Statements of Operations and Comprehensive Income.

NOTE 16. SUPPLEMENTAL GUARANTOR INFORMATION

Prior to the quarter ended September 29, 2006, we were required to provide supplemental guarantor information because substantially all of our domestic operating subsidiaries had guaranteed our obligations under our 11½% Notes. Each of the subsidiary guarantors had fully and unconditionally guaranteed our obligations on a joint and several basis. On September 15, 2006, we redeemed and retired the entire outstanding amount of \$2.8 million of our 11½% Notes. Therefore, the supplemental guarantor disclosure information is no longer required.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. Item 8, "Consolidated Financial Statements and Supplementary Data," of this report sets forth the report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, regarding its audit of our internal control over financial reporting and of management's assessment of internal control over financial reporting. This section should be read in conjunction with the certifications and the PricewaterhouseCoopers report for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures

Our CEO and CFO are responsible for establishing and maintaining "disclosure controls and procedures" (as defined in rules promulgated under the Exchange Act) for our company. Based on their evaluation as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, 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 quarter ended December 29, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 29, 2006, the end of our fiscal year. Management based its assessment on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation and testing of the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 29, 2006. We communicated the results of management's assessment to the Audit Committee of our Board of Directors.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, audited management's assessment of the effectiveness of the company's internal control over financial reporting at December 29, 2006 as stated in their report appearing under Item 8.

Inherent Limitations on Effectiveness of Controls

The company's management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any system's design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of a system's control effectiveness into future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from the information under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Information about the Board of Directors" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2007 and from Item 4A—"Executive Officers of the Registrant" in Part I above.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the information under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participations," "Report of the Compensation Committee on Executive Compensation for Fiscal Year 2006," and "Information about the Board of Directors" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from the information under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2007.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Some of our officers, directors and employees may have disposed of shares of our common stock, both in cashless transactions with us and in market transactions, in connection with exercises of stock options, the vesting of restricted and deferred stock and the payment of withholding taxes due with respect to such exercises and vesting. These officers, directors and employees may continue to dispose of shares of our common stock in this manner and for similar purposes. In addition, please see the information contained under the caption “Certain Relationships and Related Transactions” and “Information About the Board of Directors” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2007.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from the information under the captions “Information about Our Independent Registered Public Accounting Firm,” and “Report of the Audit Committee for Fiscal Year 2006” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2007.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of this Report.

(1) Financial Statements and Supplementary Data

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 29, 2006 and December 30, 2005
- Consolidated Statements of Operations and Comprehensive Income for the fiscal year ended December 29, 2006, the fiscal year ended December 30, 2005, the two months ended December 31, 2004, and the fiscal year ended October 31, 2004
- Consolidated Statements of Changes in Stockholders' Equity for the fiscal year ended December 29, 2006, the fiscal year ended December 30, 2005, the two months ended December 31, 2004, and the fiscal year ended October 31, 2004
- Consolidated Statements of Cash Flows for the fiscal year ended December 29, 2006, the fiscal year ended December 30, 2005, the two months ended December 31, 2004, and the fiscal year ended October 31, 2004
- Notes to Consolidated Financial Statements

(2) Schedules are omitted because they are not applicable, not required or because the required information is included in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits

- 3.1 Certificate of Incorporation of URS Corporation, filed as Exhibit 3.1 to our Form 10–K for the fiscal year ended October 31, 1991, and incorporated herein by reference.
- 3.2 Certificate of Elimination, as filed with the Secretary of the State of Delaware on July 23, 2003, filed as Exhibit 3.1 to our Form 10–Q for the quarter ended July 31, 2003, and incorporated herein by reference.
- 3.3 Certificate of Amendment of Certificate of Incorporation of URS Corporation, as amended October 18, 1999, filed as Exhibit 3.3 to our Form 10–K for the fiscal year ended October 31, 2003, and incorporated herein by reference.
- 3.4 Certificate of Amendment of Certificate of Incorporation of URS Corporation, as amended March 24, 2004, filed as Exhibit 3.1 to our Form 10–Q for the quarter ended April 30, 2004, and incorporated herein by reference.
- 3.5 By–laws of URS Corporation, as amended through November 14, 2006, filed as Exhibit 3.1 to our Form 8–K, dated November 20, 2006, and incorporated herein by reference.
- 4.1 Credit Agreement, dated as of June 28, 2005, by and among URS Corporation, Credit Suisse, New York, as a co–lead arranger and administrative agent, Wells Fargo Bank, National Association, as a co–lead arranger and syndication agent, and the lenders named therein, filed as Exhibit 4.1 to our Form 8–K, dated June 30, 2005, and incorporated herein by reference.

- 4.2 Specimen Common Stock Certificate, filed as an exhibit to our registration statement on Form S-1 or amendments thereto.
- 10.1* Employee Stock Purchase Plan of URS Corporation, as amended and restated effective on September 8, 2005, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended September 30, 2005 and incorporated herein by reference.
- 10.2* URS Corporation Amended and Restated 1999 Equity Incentive Plan, dated as of September 30, 2006, filed as Exhibit 10.2 to our Form 10-K, dated as of September 13, 2006, and incorporated herein by reference.
- 10.3* Non-Executive Directors Stock Grant Plan of URS Corporation, adopted December 17, 1996, filed as Exhibit 10.5 to our 1996 Form 10-K filed with the SEC on January 14, 1997, and incorporated herein by reference.
- 10.4* Selected Executive Deferred Compensation Plan of URS Corporation, filed as Exhibit 10.3 to the 1990 Form S-1, and incorporated herein by reference.
- 10.5* 1999 Incentive Compensation Plan of URS Corporation, filed as Appendix A to our definitive proxy statement for the 1999 Annual Meeting of Stockholders, filed with the SEC on February 17, 1999, and incorporated herein by reference.
- 10.6* 2006 URS Corporation Annual Incentive Compensation Plan pursuant to the 1999 Incentive Compensation Plan, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended March 31, 2006, and incorporated herein by reference.
- 10.8* Non-Executive Directors Stock Grant Plan, as amended, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended January 31, 1998, and incorporated herein by reference.
- 10.9* EG&G Technical Services, Inc. Amended and Restated Employees Retirement Plan. FILED HERewith.
- 10.10* Amended and Restated Employment Agreement, dated September 5, 2003, between URS Corporation and Martin M. Koffel, filed as Exhibit 10.10 to our Form 10-K for the fiscal year ended October 31, 2003, and incorporated herein by reference.
- 10.11* First Amendment to the Amended and Restated Employment Agreement between URS Corporation and Martin M. Koffel, dated as of December 7, 2006, filed as Exhibit 10.1 to our Form 8-K, dated December 8, 2006, and incorporated herein by reference.
- 10.12* Amended and Restated Supplemental Executive Retirement Agreement between URS Corporation and Martin M. Koffel, dated as of December 7, 2006, filed as Exhibit 10.2 to our Form 8-K, dated December 8, 2006, and incorporated herein by reference.
- 10.13* Amended and Restated Employment Agreement, dated May 31, 2005, between URS Corporation and Kent P. Ainsworth, filed as Exhibit 10.1 to our Form 8-K, dated May 31, 2005, and incorporated herein by reference.
- 10.14* Employment Agreement, dated as of September 8, 2000, between URS Corporation and Joseph Masters, filed as Exhibit 10.14 to our 1999 Form 10-K for the fiscal year ended October 31, 2000, and incorporated herein by reference.
- 10.15* Amendment to Employment Agreement, dated August 11, 2003, between URS Corporation and Joseph Masters, filed as Exhibit 10.15 to our Form 10-K for the fiscal year ended October 31, 2003, and incorporated herein by reference.
- 10.16* Second amendment to Employment Agreement, dated August 20, 2004, between URS Corporation and Joseph Masters, filed as Exhibit 10.17 to our Form 10-K for the year ended October 31, 2004, and incorporated herein by reference.

- 10.17*Fourth Amendment to Employment Agreement, dated as of November 15, 2005, between URS Corporation and Joseph Masters, filed as Exhibit 10.1 to our Form 8-K, dated November 18, 2005, and incorporated herein by reference.
- 10.18*Employment Agreement, dated May 19, 2003, between URS Corporation and Reed N. Brimhall, Vice President, Corporate Controller, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended July 31, 2003, and incorporated herein by reference.
- 10.19*Employment Agreement, dated January 29, 2004, between URS Corporation and Gary V. Jandegian, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended January 31, 2004, and incorporated herein by reference.
- 10.20*Employment Agreement, dated January 30, 2004, between URS Corporation and Thomas W. Bishop, filed as Exhibit 10.2 to our Form 10-Q for the quarter ended January 31, 2004, and incorporated herein by reference.
- 10.21*Employment Agreement, dated as of November 19, 2004, between URS Corporation and Randall A. Wotring, filed as Exhibit 10.1 to our Form 8-K, dated November 24, 2004, and incorporated herein by reference.
- 10.22*Employment Agreement, dated May 31, 2005, between URS Corporation and H. Thomas Hicks, filed as Exhibit 10.2 to our Form 8-K, dated May 31, 2005, and incorporated herein by reference.
- 10.23*Employment Agreement, dated May 25, 2006, between URS Corporation and Susan B. Kilgannon, filed as Exhibit 10.3 to our Form 8-K, dated as of May 31, 2006, and incorporated herein by reference.
- 10.24*Stock Option Agreement, dated as of November 5, 1999 and between URS Corporation and Martin M. Koffel, filed as Exhibit 10.24 to our Form 10-K for the fiscal year ended October 31, 1999, and incorporated herein by reference.
- 10.25*URS Corporation 1999 Equity Incentive Plan Nonstatutory Stock Option Agreement, dated as of April 25, 2001, between Martin M. Koffel and URS Corporation, filed as Exhibit 10.2 to our Form 10-Q for the quarter ended April 30, 2001, and incorporated herein by reference.
- 10.26*Form of URS Corporation 1999 Equity Incentive Plan Restricted Stock Unit Award Agreement, dated as of July 12, 2004, executed between URS Corporation and Martin M. Koffel for 50,000 shares of deferred restricted stock units, filed as Exhibit 10.3 to our Form 10-Q for the quarter ended July 31, 2004, and incorporated herein by reference.
- 10.27*URS Corporation 1999 Equity Incentive Plan Restricted Stock Award to Mr. Koffel, dated December 7, 2006, between URS Corporation and Martin M. Koffel, filed as Exhibit 10.4 to our Form 8-K, dated December 8, 2006, and incorporated herein by reference.
- 10.28*Form of URS Corporation 1999 Equity Incentive Plan Restricted Stock Award Agreement, dated as of July 12, 2004, executed as separate agreements between URS Corporation and each of Kent P. Ainsworth and Joseph Masters, filed as Exhibit 10.4 to our Form 10-Q for the quarter ended July 31, 2004, and incorporated herein by reference.
- 10.29*Form of URS Corporation 1999 Equity Incentive Plan Nonstatutory Stock Option Agreement, dated as of July 12, 2004, executed between URS Corporation and Joseph Masters, filed as Exhibit 10.6 to our Form 10-Q for the quarter ended July 31, 2004, and incorporated herein by reference.
- 10.30*Form of URS Corporation 1999 Equity Incentive Plan Restricted Stock Award Agreement, dated as of July 12, 2004, executed as separate agreements between URS Corporation and each of Thomas W. Bishop, Reed N. Brimhall and Gary Jandegian, filed as Exhibit 10.36 to our Form 10-K for the year ended October 31, 2004, and incorporated herein by reference.

- 10.31*Form of URS Corporation 1999 Equity Incentive Plan Nonstatutory Stock Option Agreement and Grant Notice, adopted July 12, 2004, executed as separate agreements between URS Corporation and each of Thomas W. Bishop, Reed N. Brimhall, and Gary Jandegian, filed as Exhibit 10.2 to our Form 10-Q for the quarter ended April 1, 2005, and incorporated herein by reference.
- 10.32*Form of URS Corporation 1999 Equity Incentive Plan Restricted Stock Award, dated as of October 4, 2005 and February 16, 2006, executed as separate agreements between URS Corporation and each of Martin M. Koffel, Kent P. Ainsworth, Thomas W. Bishop, Reed N. Brimhall, H. Thomas Hicks, Gary V. Jandegian, Joseph Masters, and Randall A. Wotring, filed as Exhibit 10.1 to our Form 8-K, dated as of October 7, 2005, and incorporated herein by reference.
- 10.33*Form of URS Corporation 1999 Equity Incentive Plan Restricted Stock Award, dated as of May 25, 2006, executed as separate agreements between URS Corporation and each of Martin M. Koffel, Kent P. Ainsworth, Thomas W. Bishop, Reed N. Brimhall, H. Thomas Hicks, Gary V. Jandegian, Joseph Masters, Susan Kilgannon and Randall A. Wotring, filed as Exhibit 10.2 to our Form 8-K, dated as of May 31, 2006, and incorporated herein by reference.
- 10.34*Form Nonstatutory Stock Option Agreement, filed as Exhibit 10.40 to our Form 10-K for the fiscal year ended December 30, 2005, and incorporated herein by reference.
- 10.35*Form Restricted Stock Award Agreement, filed as Exhibit 10.41 to our Form 10-K for the fiscal year ended December 30, 2005, and incorporated herein by reference.
- 10.36*Form of Officer Indemnification Agreement filed as Exhibit 10.3 to our Form 10-Q for the quarter ended April 30, 2004, and incorporated herein by reference; dated as of March 23, 2004, between URS Corporation and each of Kent P. Ainsworth, Thomas W. Bishop, Reed N. Brimhall, Susan B. Kilgannon, Gary V. Jandegian and Joseph Masters; dated as of November 19, 2004, between URS Corporation and Randall A. Wotring; and dated as of March 17, 2006 between URS Corporation and H. Thomas Hicks.
- 10.37*Form of Director Indemnification Agreement filed as Exhibit 10.4 to our Form 10-Q for the quarter ended April 30, 2004, and incorporated herein by reference; dated as of March 23, 2004, between URS Corporation and each of H. Jesse Arnelle, Richard C. Blum, Armen Der Marderosian, Mickey P. Foret, Martin M. Koffel, Richard B. Madden, General Joseph W. Ralston, USAF (Ret.), John D. Roach and William D. Walsh; dated as of August 6, 2004, between URS Corporation and Betsy Bernard; and dated as of August 1, 2006 between URS Corporation and William P. Sullivan.
- 10.38*URS Corporation Summary of Non-Executive Director Compensation, dated as of September 30, 2006, filed as Exhibit 10.1 to our Form 8-K, dated September 13, 2006, and incorporated herein by reference.
- 10.39*Form of URS Corporation 1999 Equity Incentive Plan Restricted Stock Award, dated as of October 4, 2005, executed as separate agreements between URS Corporation and each of Martin M. Koffel for 55,000 shares of common stock, Kent P. Ainsworth for 15,000 shares of common stock, Thomas W. Bishop for 4,000 shares of common stock, Reed N. Brimhall for 2,500 shares of common stock, H. Thomas Hicks for 40,000 shares of common stock, Gary V. Jandegian for 7,500 shares of common stock, Joseph Masters for 3,500 shares of common stock, and Randall A. Wotring for 6,000 shares of common stock, filed as Exhibit 10.1 to our Form 8-K, dated as of October 7, 2005, and incorporated herein by reference.
- 10.40*URS Corporation Summary of Non-Executive Director Compensation, dated as of September 30, 2006, filed as Exhibit 10.1 to our Form 8-K, dated September 13, 2006, and incorporated herein by reference.
- 21.1 Subsidiaries of URS Corporation. FILED HEREWITH.
- 23.1 Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.

- 24.1 Powers of Attorney of URS Corporation's directors and officers. FILED HEREWITH.
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. FILED HEREWITH.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. FILED HEREWITH.
- 32 Certification of the Company's Chief Executive Officer and Chief Financial al Officer pursuant to Section 906 of the Sarbanes–Oxley Act of 2002. FILED HEREWITH.

*Represents a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, URS Corporation, the Registrant, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

URS CORPORATION (Registrant)

Dated: February 27, 2007

By: /s/ Reed N. Brimhall

Reed N. Brimhall
Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the date indicated.

Signature	Title	Date
/s/ MARTIN M. KOFFEL* (Martin M. Koffel)	Chairman of the Board of Directors and Chief Executive Officer	February 27, 2007
/s/ H. THOMAS HICKS (H. Thomas Hicks)	Chief Financial Officer	February 27, 2007
/s/ REED N. BRIMHALL (Reed N. Brimhall)	Vice President, Controller and Chief Accounting Officer	February 27, 2007
/s/ H. JESSE ARNELLE* (H. Jesse Arnelle)	Director	February 27, 2007
/s/ BETSY J. BERNARD* (Betsy J. Bernard)	Director	February 27, 2007
/s/ ARMEN DER MARDEROSIAN* (Armen Der Marderosian)	Director	February 27, 2007
/s/ MICKEY P. FORET* (Mickey P. Foret)	Director	February 27, 2007
/s/ JOSEPH W. RALSTON* (Joseph W. Ralston)	Director	February 27, 2007
/s/ JOHN D. ROACH* (John D. Roach)	Director	February 27, 2007

Signature	Title	Date
/s/ WILLIAM P. SULLIVAN (William P. Sullivan)	Director	February 27, 2007
/s/ WILLIAM D. WALSH*	Director	February 27, 2007
(William D. Walsh)		

*By /s/ H. Thomas Hicks
(H. Thomas Hicks, Attorney-in-fact)

*By /s/ Reed N. Brimhall
(Reed N. Brimhall, Attorney-in-fact)

EXHIBIT INDEX

ExhibitDescription
No.

- 10.9* EG&G Technical Services, Inc. Amended and Restated Employees Retirement Plan. FILED HEREWITH.
- 21.1 Subsidiaries of URS Corporation. FILED HEREWITH.
- 23.1 Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.
- 24.1 Powers of Attorney of URS Corporation's directors and officers. FILED HEREWITH.
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. FILED HEREWITH.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. FILED HEREWITH.
- 32 Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes–Oxley Act of 2002. FILED HEREWITH.

*Represents a management contract or compensatory plan or arrangement.

EG&G TECHNICAL SERVICES

RETIREMENT PLAN

Restated as of January 1, 2007

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EG&G TECHNICAL SERVICES, INC.

EMPLOYEES RETIREMENT PLAN

INTRODUCTION

Effective as of August 20, 1999, EG&G Technical Services, Inc. adopts the EG&G Technical Services, Inc. Employees Retirement Plan as a program for providing retirement income and other benefits for the benefit of certain of its employees and their beneficiaries.

It is intended that this Plan and the trust used to provide benefits hereunder shall at all times be qualified and tax-exempt within the meaning of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986, as now in effect or hereafter amended, and any other applicable provisions of law.

The Plan is a successor to the EG&G, Inc. Employees Retirement Plan, as it related to employees and former employees of the Technical Services Division of EG&G, Inc. (the "Prior Plan").

Except as specified herein, the provisions of the Plan as contained herein shall apply only to those persons who are in the service of the Employer (as defined herein) on or after August 20, 1999 or who were participants in the Prior Plan immediately prior thereto.

This Plan is amended and restated as of January 1, 2007.

EG&G TECHNICAL SERVICES, INC.

EMPLOYEES RETIREMENT PLAN

**ARTICLE I
DEFINITIONS**

- 1.1 “Accrued Benefit” means, as of any date of determination, the normal Retirement Income computed under Section 4.1.
- 1.2 “Annuity Starting Date” means the first day of the month for which Retirement Income benefits are paid as an annuity or in any other form.
- 1.3 “Average Earnings” means with respect to periods of Credited Service the average annual Earnings of a Participant during the five consecutive years of his Credited Service in the last 10 years of his Credited Service immediately preceding or ending with his Separation from Service affording the highest such average, or during the actual period of his Credited Service if less than five consecutive years; provided, however, Credited Service after December 31, 2003 shall not be taken into account for this purpose. A Participant’s Earnings shall be annualized for any Computation Period in which he receives credit for some portion, but less than a full year, of Credited Service.”
- 1.4 “Beneficiary” means the person or persons named by a Participant by written designation filed with the Plan Administrator to receive payments after the Participant’s death.
- 1.5 “Board of Directors” means the board of directors of the Company.
- 1.6 “Break in Service” means a Computation Period in which a Participant completes no more than 500 Hours of Service. Hours of Service shall be recognized for a “permitted leave of absence” or a “maternity or paternity leave of absence” solely for purposes of determining whether an Employee has incurred a Break in Service.

A “permitted leave of absence” means an unpaid, temporary cessation from active employment with the Employer pursuant to a nondiscriminatory policy established by the Plan Administrator.

A “maternity or paternity leave of absence” means an absence from work for any period by reason of the Employee's pregnancy, birth of the Employee's child, placement of a child with the Employee in connection with the adoption of such child, or any absence for the purpose of caring for such child for a period immediately following such birth or placement. The Hours of Service credited for a “maternity or paternity leave of absence” shall be those that would normally have been credited but for such absence, or, in any case in which the Plan Administrator is unable to determine such hours normally credited, eight Hours of Service per day. For this purpose, Hours of Service shall be credited for the 12-month period in which the absence from work begins if such credit is necessary to prevent the Employee from incurring a Break in Service, or in the immediately following 12-month period.

1.7 “Code” means the Internal Revenue Code of 1986, as now in effect or hereafter amended.

1.8 “Company” means EG&G Technical Services, Inc. and any successor thereto.

1.9 “Computation Period”, except as provided below, means the calendar year. The “Computation Period” for determining eligibility under Section 2.1(b) means the 12-month period beginning on an Employee's Employment Commencement Date or Reemployment Commencement Date, if applicable, and anniversaries thereof.

1.10 “Covered Contract” means a contract that the Employer enters directly into with, or a subcontract by which the Employer enters indirectly into a contract with, the federal government or an agency or instrumentality thereof, the latter through another entity that has entered directly into such contract.

1.11 “Covered Contract Employee” means an Employee whose service with the Employer, at the relevant time, is primarily devoted to work under a Covered Contract and who works at a location listed below.

Effective Date	Location	Bargaining Representative or Employer Unit
	Huntsville, Alabama	International Brotherhood of Electrical Workers Local No. 558
	San Antonio, Texas	MSSA (KDC)
	Bloomington, Indiana	Crane, Indiana
09/01/2001	Wallops Island, Virginia	Wallops Island
09/18/2000	Johnston Atoll	Johnston Island
09/01/2000	Warner Robins, Georgia	Warner Robins
08/13/2000	Barstow, California	Barstow
02/01/2000	San Antonio, Texas	Randolph Air Force Base
08/20/1999	Huntsville, Alabama	Bricklayers & Allied Craftworkers Local 15

1.12 “Credited Service” means service recognized for purposes of computing the amount of any benefit, determined as provided in Section 3.2.

1.13 “Disability” means a Participant's physical or mental condition, as determined by the Social Security Administration, that renders him eligible to receive disability benefits under Title II of the Social Security Act, as amended from time to time. The Plan Administrator will apply the provisions of this Section 1.13 in a nondiscriminatory, consistent and uniform manner.

1.14 “Earnings” means a Participant's regular base salary or wages from the Employer, including salary deferrals under any salary reduction agreement under Section 125, 402(g)(3) or 457 or, effective January 1, 2001, Section 132(f)(4) of the Code, commissions and severance pay, but excluding any bonuses, overtime payments, incentive pay, reimbursements or other expense allowances or other adjustments, fringe benefits and any other type of special or nonrecurring pay.

Effective January 1, 2002, the annual Earnings of each Participant taken into account for all Plan purposes shall not exceed \$200,000, as adjusted by the Secretary of the Treasury for increases in the cost of living in accordance with Code Section 401(a)(17)(B). The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Earnings are determined (the “determination period”) beginning in such calendar year. If a determination period consists of fewer than 12 months, the limit referred to above will be multiplied by a fraction, the numerator of which is the number of months in the determination period and the denominator of which is 12.

For purposes of determining a Participant's benefit accruals in a Plan Year beginning after December 31, 2001, Earnings for a determination period beginning prior to January 1, 2002 shall not exceed \$200,000.

1.15 “Effective Date” means August 20, 1999.

1.16 “Eligible Employee” means any Employee of the Employer, excluding any person who is (a) a Covered Contract Employee or (b) included in a unit of employees covered by an agreement recognized for purposes of collective bargaining with the Employer, provided retirement benefits have been the subject of good faith bargaining and such bargaining does not provide for coverage under this Plan.

1.17 “Employee” means any person employed by the Employer, other than an independent contractor, who receives stated remuneration other than a pension, severance pay, retainer or fee under contract. Employees shall also include leased employees within the meaning of Code Section 414(n)(2) unless such leased employees are covered by a money purchase pension plan requiring a 10 percent contribution and such leased employees do not constitute more than 20 percent of the recipient’s nonhighly compensated workforce, as defined in Section 414(n)(5)(C)(ii) of the Code. Notwithstanding any other provision of this Plan, the term “Employee” shall not include any employee, independent contractor, leased employee or other individual unless such individual is contemporaneously treated by an Employer as an employee for purposes of this Plan (without regard to any subsequent recharacterization or inconsistent determination made by any person or entity or by any court, agency or other authority with respect to such individual).

1.18 “Employer” means the Company and any subsidiary or affiliated organization of the Company that, with the approval of the Board of Directors and subject to such considerations as the Board of Directors may impose, adopts this Plan.

Employer shall also mean JT3, LLC for purposes of determining a Participant’s Earnings under Section 1.14, Credited Service under Section 3.2, Service and Vesting Service under Section 3.1 and in determining whether a Participant has incurred a Separation from Service under Section 1.34.

In determining a Participant’s Hours of Service for purposes of eligibility for participation and entitlement to benefits under Section 1.22, in determining whether an election to change the Limitation Year has been made in accordance with Section 1.23, in determining whether an Employee has incurred a Separation from Service under Section 1.34, in determining the limitations on annual benefits under Section 4.6 and the limitation in case of dual plans under Section 4.7 and in determining whether the Plan is Top–Heavy under Article IX, the term “Employer” shall include any other corporation or business entity that must be aggregated with the Employer under Section 414(b), (c), (m) or (o) of the Code, but only for such periods of time when the Employer and such other corporation or business entity must be aggregated as aforesaid. For purposes of Sections 4.6 and 4.7, such definition of “Employer” shall be modified by Section 415(h) of the Code.

1.19 “Employment Commencement Date” means the date on which an Employee first performs an Hour of Service.

1.20 “Equivalent Actuarial Value” means equivalent value computed on the basis of interest at 7% per annum and the 1971 Group Annuity Mortality Table with no loading and projected by Scale E, with a one–year age setback for the Participant and a five–year age setback for any Beneficiary. Actuarial equivalence for purposes of Section 4.6 shall be computed on the basis of interest at 5% per annum and the 1983 Group Annuity Mortality Table (Unisex). Actuarial equivalence for purposes of Section 5.1(c) and Option 4 and Option 5 of Section 5.2 shall be computed on the basis of (a) the annual rate of interest on 30–year Treasury securities for the second calendar month preceding the first day of the Plan Year that contains the Annuity Starting Date and (b) the mortality table prescribed by the Secretary of the Treasury that is based on the prevailing commissioners’ standard table, described in Section 807(d)(5)(A) of the Code, that is used to determine reserves for group annuity contracts issued on the date as of which present value is being determined, without regard to any other subparagraph of Section 807(d)(5), as published in Revenue Ruling 95–6 or any governmental ruling or publication superseding that Ruling. Effective for distributions with Annuity Starting Dates (as defined in Section 417(f)(2) of the Code) on or after December 31, 2002, the Mortality Table used to determine actuarial equivalence for purposes of Section 4.6, Section 5.1(c) and Option 4 and Option 5 under Section 5.2 shall mean the Mortality Table set forth in Rev. Rul. 2001–62.

1.21 “ERISA” means the Employee Retirement Income Security Act of 1974, as now in effect or as hereafter amended.

1.22 With respect to any applicable Computation Period in determining Vesting Service in accordance with Section 3.1 and in determining Credited Service in accordance with Section 3.2(b), “Hour of Service” means as follows:

- (a) each hour for which the Employee is paid or entitled to payment for the performance of duties for the Employer,
- (b) each hour for which an Employee is paid or entitled to payment by the Employer on account of a period during which no duties are performed, whether or not the employment relationship has terminated, but not more than 501 hours for any single continuous period, and
- (c) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer, excluding any hour credited under (a) or (b).
- (d) For purposes of determining Vesting Service in accordance with Section 3.1, Hours of Service shall be determined by crediting an Employee with 190 Hours of Service for each month in which at least one Hour of Service was credited under subparagraphs (a), (b) or (c) above. Hours of Service under this Section 1.22(d) shall be credited in accordance with the equivalence rules of Section 2530.200b–3 of the Department of Labor regulations.

For purposes of this Section 1.22, performance of duties (i) for EG&G, Inc. prior to the Effective Date or (ii) for EG&G Mound Technologies, Inc. in accordance with Appendix K to the Prior Plan, shall constitute performance of duties for the Employer.

No hours shall be credited on account of any period during which the Employee performs no duties and receives payment solely for the purpose of reimbursement for medical or medically related expenses incurred by the Employee for the purpose of complying with unemployment compensation, worker's compensation or disability insurance laws. The Hours of Service credited shall be determined by Section 2530.200b-2(b) and (c) of the Department of Labor regulations.

1.23 "Limitation Year" means the calendar year, unless otherwise selected by the Employer in a manner consistent with that described in Section 1.415-2(b)(2) of the Treasury Regulations.

1.24 "Normal Retirement Age" means the age determined in accordance with the following table:

Year of Birth	Age
1937 and earlier	65
1938—1942	65 plus 2 months per year
1943—1954	66
1955—1959	66 plus 2 months per year
1960 and later	67

1.25 "Normal Retirement Date" means the first day of the month next following the month in which the Participant attains his Normal Retirement Age.

1.26 "Participant" means any Eligible Employee participating in the Plan, as provided in Article II, or any former Employee whose participation has not ceased pursuant to Section 2.2.

1.27 "Plan" means the EG&G Technical Services, Inc. Employees Retirement Plan, as set forth herein and as amended from time to time.

1.28 "Plan Administrator" means the person, persons or committee designated by the Board of Directors to administer the Plan in accordance with Article VII. In the absence of any such designation, the Company shall be the Plan Administrator.

1.29 "Plan Year" means (a) the period commencing on the Effective Date and ending on the next following December 31 and (b) the 12-month period commencing on each January 1 thereafter and ending on the next following December 31.

1.30 "Prior Plan" means the EG&G, Inc. Employees Retirement Plan.

1.31 "Qualified Joint and Survivor Annuity" means Retirement Income described in Section 5.1(b). "Reemployment Commencement Date" means the first date following an Employee's Break in Service on which the Employee again performs an Hour of Service.

1.32 "Retirement Income" means monthly payments under the Plan as provided in Article V.

1.33 "Separation from Service" means an Employee's death, resignation or discharge from Service with the Employer.

1.34 "Service" means service with an Employer or predecessor employer recognized for purposes of determining eligibility for participation in the Plan and entitlement to certain benefits under the Plan, determined as provided in Sections 1.43 and 3.1. Notwithstanding any other provision of this Plan to the contrary, Service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

1.35 "Social Security Retirement Age" means the age used as the retirement age under Section 216(l) of the Social Security Act, applied without regard to the age increase factor and as if the early retirement age under Section 216(l)(2) of such Act were 62.

1.36 "Social Security Tax Base" means the average (without indexing) of the Social Security Wage Bases in effect for each calendar year during the 35-year period ending with the last day of the calendar year in which the Participant attains (or will attain) Normal Retirement Age. In determining a Participant's Social Security Tax Base for a Plan Year, the Social Security Wage Base for all calendar years beginning after the first day of the Plan Year is assumed to be the same as the Social Security Wage Base in effect as of the beginning of the Plan Year. A Participant's Social Security Tax Base for a Plan Year after the 35-year period described in this Section shall be the Participant's Social Security Tax Base for the Plan Year during which the 35-year period ends. A Participant's Social Security Tax Base for a Plan Year prior to the 35-year period described in this Section shall be the Social Security Wage Base in effect at the beginning of the Plan Year. A Participant's Social Security Tax Base shall be automatically adjusted each Plan Year to reflect changes in the Social Security Wage Base.

1.37 "Social Security Wage Base" means the contribution and benefit base taken into account under Section 230 of the Social Security Act.

- 1.38 “Spouse” means the lawful spouse to whom the Participant was married on the date Retirement Income payments commence under the Plan, or if Retirement Income payments had not commenced, the lawful spouse to whom the Participant was married on the Participant's date of death.
- 1.39 “Trust Agreement” means the agreement, as amended from time to time, entered into between the Company and the Trustee to carry out the purposes of the Plan.
- 1.40 “Trust Fund” means the cash or other property held by the Trustee in accordance with the provisions of the Trust Agreement and the Plan.
- 1.41 “Trustee” means the trustee or trustees appointed by the Company and acting in accordance with Article VIII.
- 1.42 “Year of Service” means a Computation Period during which an individual completes at least 1,000 Hours of Service.
- 1.43 “Year of Vesting Service” means a Computation Period during which Service is recognized for purposes of determining entitlement to certain benefits under the Plan, determined as provided in Section 3.1.

Whenever used herein, the masculine gender includes the feminine and the plural shall include the singular unless the context clearly requires otherwise.

PARTICIPATION

1.44 Participation Requirements

- (a) Every Eligible Employee on the Effective Date who was a participant in the Prior Plan immediately prior to the Effective Date shall become a Participant in the Plan as of the Effective Date.
- (b) Every other Eligible Employee who is not already a Participant pursuant to paragraph (a) above shall become a Participant immediately after his completion of one Year of Service.
- (c) In order to become a Participant, an Eligible Employee must complete an enrollment form prescribed by the Plan Administrator.

1.45 Events Affecting Participation

- (a) An Employee's participation in the Plan shall end when he is no longer employed by the Employer if he is not entitled to either an immediate or a deferred Retirement Income under the Plan. Participation shall continue and Service shall continue to be granted while a Participant is on authorized leave of absence or during a period while he is not an Eligible Employee but remains in the employ of the Employer, but no Credited Service shall be counted for that period, except as specifically provided in Article III and Section 4.8. Any Earnings of such a Participant while his status is other than that of an Eligible Employee shall be disregarded for all Plan purposes.
- (b) If an Employee transfers from an employment status with an Employer other than as an Eligible Employee and thereby becomes an Eligible Employee, he shall become a Participant immediately after the date on which he completes the requirements of Section 2.1. No Credited Service shall be counted for the period of time prior to his becoming a Participant, except as specifically provided in Article III and Section 4.8.

1.46 Participation upon Reemployment

If an Employee's participation in the Plan ends and he again becomes an Eligible Employee, he shall again become a Participant as of his Reemployment Commencement Date provided he has not incurred a Break in Service.

1.47 Plan Closed to New Participants

No individual who first becomes an Eligible Employee of, is first offered employment with or who first executes an employment agreement with the Employer for a position as an Eligible Employee after June 30, 2003 shall be considered or become a Participant.

1.48 Participation Upon Reemployment or Transfer to an Eligible Unit After June 30, 2003

Notwithstanding Section 2.4, if the participation of an Eligible Employee who was a Participant in the Plan ends or has ended and he again becomes an Eligible Employee on or after July 1, 2003, he shall again become a Participant as of his Reemployment Commencement Date provided he has not incurred a Break in Service. However, if an Eligible Employee ceases or has ceased to be an Eligible Employee prior to becoming a Participant, whether as a result of termination of employment with the Employer or transfer to an ineligible unit, and he then again on or after July 1, 2003 becomes an Employee or transfers back to an eligible unit, such individual shall not be eligible to become a Participant in the Plan.

ARTICLE II SERVICE

2.1 Service and Vesting Service

- (a) Except as otherwise provided in this Plan, all service with the Employer rendered by an Employee counts as Service. A Computation Period described in Section 1.43 counts as a full Year of Service. A Computation Period in which an Employee completes at least 1,000 Hours of Service counts as a full Year of Vesting Service. Except as provided in paragraph (b) below, no Vesting Service is counted for any Computation Period in which an Employee completes less than 1,000 Hours of Service. If an Employee who has not become 100 percent vested in accordance with Section 4.3 has a Break in Service in which the number of consecutive one-year Breaks in Service equals or exceeds five, excluding any Years of Vesting Service disregarded under this sentence by reason of any earlier Break in Service, the service rendered before the Break in Service shall be excluded from his Vesting Service.
- (b) A period during which an Employee is on a leave of absence approved by the Employer shall not be considered as a Break in Service. Under rules uniformly applicable to all Employees similarly situated, the Employer shall credit Vesting Service for any portion of that period of leave that is not counted as Vesting Service under paragraph (a) of this Section, provided that the Employee returns to Service at or before the end of such leave of absence. An Employee who fails to return to Service at or before the end of such a leave of absence will be considered to have incurred a Separation from Service as of the later of (i) the last day of Service with an Employer or (ii) the date on which the Employee's failure to return was due to his death, Disability or retirement in accordance with Section 4.1 or 4.2.

A period during which an Employee is laid off due to a reduction in work force shall not be considered as a Break in Service. Under rules uniformly applicable to all Employees similarly situated, the Employer shall credit Vesting Service for the period of layoff that is not counted as Vesting Service under paragraph (a) of this Section, provided that the Employee returns to Service within the one-year period following the beginning of the layoff. An Employee who fails to return to Service before the end of such one-year period will be considered to have incurred a Separation from Service as of the last day of Service with an Employer.

2.2 Credited Service

- (a) A Participant who normally works the regular full-time work week for his Employer, whether or not considered a regular or temporary Employee by the Employer, shall be credited with a full year of Credited Service for each calendar year of his employment with an Employer, other than as a Covered Contract Employee. If a Participant described in the previous sentence completes less than a full year of Credited Service for the calendar year in which his Employment Commencement Date or Separation from Service occurs, he shall be credited with one-twelfth (1/12) of a year of Credited Service for each month of employment with an Employer, rounded to the nearest month. For the calendar month of a Participant's Separation from Service, a Participant is credited with the month if his Separation from Service is on or after the 15th of the month. For the calendar month of a Participant's Employment Commencement Date, a Participant is credited with the month if his Employment Commencement Date is on or before the 15th of the month. For the purpose of determining Credited Service under this Section 3.2(a), Service shall be measured under the elapsed time method as authorized under regulations promulgated by the Secretary of Labor.
- (b) A Participant who does not normally work the regular full-time work week for his Employer, whether or not considered a regular or temporary Employee by the Employer, shall be credited with one-twelfth (1/12) of a year of Credited Service for each 173-1/3 Hours of Service completed as an Employee during a Computation Period, other than a Covered Contract Employee, described in this paragraph (b).
- (c) A Participant shall be credited with Credited Service for any period during which he is on an approved leave of absence for medical or military reasons that is counted as Vesting Service as provided in Section 3.1(b). The Earnings for a period of absence that is counted as Credited Service shall be the Participant's rate of Earnings in effect immediately before the period of absence.
- (d) A Participant who goes from normally working the regular full-time work week for his Employer to not normally working the regular full-time work week for his Employer and vice versa shall be credited with Credited Service for the month depending on his or her employment status of the 15th day of the month.

2.3 Restoration of Retired Participant or Other Former Employee to Service

- (a) If a Participant in receipt of a Retirement Income is restored to service as an Eligible Employee on or after his Normal Retirement Date, the following shall apply:
 - (i) His Retirement Income shall be suspended for each month during the period of restoration that constitutes a "month of suspension service" and, he shall be granted Credited Service with respect to such periods of

restoration as otherwise provided by Section 3.2. A month of suspension service is a month in which the Participant completes at least 40 Hours of Service with the Employer.

- (ii) If the Participant's death occurs during the period of restoration, any Retirement Income to which he would have been entitled had he retired immediately prior to his date of death, based on the benefit formula then in effect and his Earnings and Credited Service before and after the period when he was not in the service of the Employer, reduced by an amount of Equivalent Actuarial Value to the benefits he received before the date of his restoration to service, shall be payable to his surviving Spouse or, alternatively, any payments under an optional benefit, if one has been elected and become effective, shall begin.
 - (iii) Upon later retirement, payment of the Participant's Retirement Income, based on the benefit formula then in effect and his Earnings and Credited Service before and after the period when he was not in the service of the Employer, reduced by an amount of Equivalent Actuarial Value to the benefits he received before the date of his restoration to service, shall begin no later than the third month after the month in which the Participant ceases to be employed in suspension service and shall be adjusted, if necessary, to recover Retirement Income payments erroneously made after his restoration to service, in compliance with Title 29 of the Code of Federal Regulations, Section 2530.203-3 in a consistent and nondiscriminatory manner.
- (b) If a Participant in receipt of Retirement Income is restored to service with the Employer before his Normal Retirement Date, the following shall apply:
 - (i) His Retirement Income shall cease and any election of an optional benefit in effect shall be void.
 - (ii) Any Vesting Service and Credited Service to which he was entitled at the time of his Separation from Service shall be restored to him as of his Reemployment Commencement Date.
 - (iii) Upon later retirement or termination his Retirement Income shall be based on the benefit formula then in effect and his Earnings and Credited Service before and after the period when he was not in the service of the Employer, reduced by an amount of Equivalent Actuarial Value to the benefits he received before the date of his restoration to service.
 - (iv) The part of the Participant's Retirement Income upon later retirement payable with respect to Credited Service rendered before his previous Separation from Service shall never be less than the amount of his previous Retirement Income modified to reflect any option in effect on his later retirement.
- (c) If a Participant not in receipt of a Retirement Income or a former Participant is restored to service without having had a Break in Service, his Vesting Service and Credited Service shall be determined as provided in Sections 3.1, and 3.2, and, if applicable, he shall again become a Participant as of his Reemployment Commencement Date.
- (d) If a Participant not in receipt of a Retirement Income or a former Participant who received a single-sum settlement in lieu of his Retirement Income is restored to service with the Employer after having had a Break in Service, the following shall apply:
 - (i) The Vesting Service to which he was previously entitled shall be restored to him, and, if applicable, he shall again become a Participant as of his Reemployment Commencement Date.
 - (ii) Any Credited Service to which the Participant was entitled at the time of his Separation from Service that is included in the Vesting Service so restored shall not be restored to him.
 - (iii) Upon later termination or retirement of a Participant whose previous Vesting Service has been restored under this paragraph (d), his Retirement Income shall be based on the benefit formula then in effect and his Earnings and Credited Service after the period when he was not in the service of the Employer.
- (e) If any other former Participant is restored to service with the Employer after having had a Break in Service, the following shall apply:
 - (i) He shall again become a Participant as of his Reemployment Commencement Date.
 - (ii) The Vesting Service to which he was previously entitled shall be restored to him, except that with respect to a former Participant who had not completed five Years of Vesting Service, such Vesting Service shall be restored to him if the total number of consecutive one-year Breaks in Service does not equal or exceed five.
 - (iii) Any Credited Service to which the Participant was entitled at the time of his Separation from Service that is included in the Vesting Service so restored shall be restored to him.
 - (iv) If a Participant's Credited Service has been restored under this paragraph (e), his Retirement Income, if any, shall be based on the benefit formula then in effect and his Earnings and Credited Service before and after the.

period when he was not in the service of the Employer.

ELIGIBILITY FOR AND AMOUNT OF PENSION

2.4 Normal Retirement

- (a) The right of a Participant to his normal Retirement Income shall be nonforfeitable on attainment of his Normal Retirement Age. A Participant may retire from service on a normal Retirement Income beginning on his Normal Retirement Date or he may postpone his retirement and remain in service after his Normal Retirement Date.

If the Participant postpones his retirement, he shall be retired from service on a normal Retirement Income beginning on the first day of the calendar month immediately after the Employer receives his written application to retire.

If a Participant's retirement is postponed beyond his Normal Retirement Date, then he shall be granted Credited Service, as otherwise provided in this Plan, with respect to all periods beginning on and after his Normal Retirement Date. Such a Participant's Retirement Income shall be determined on the basis of his Credited Service and Earnings both before and after his Normal Retirement Date.

Notwithstanding the foregoing, if the Participant was not given a notice of suspension of benefits in accordance with Section 411(a)(3)(B) of the Code, the Participant's Accrued Benefit as of the end of each Plan Year following his Normal Retirement Date shall be the greater of the amount described in the preceding sentence or the Equivalent Actuarial Value of his Accrued Benefit, determined as of the later of his Normal Retirement Date or the end of the prior Plan Year. If a Participant's Accrued Benefit is actuarially increased under the preceding sentence, such actuarial increase shall be reduced by any actuarial increase of his Accrued Benefit under Section 5.4(b) because the Participant remains an Employee after attaining age 70½.

- (b) Effective January 1, 2004 and subject to the provisions of Section 5.1, the normal monthly Retirement Income payable upon retirement on or after Normal Retirement Date shall be equal to greater of (i) or (ii), where

- (i) Equals the sum of (A) and (B), where

(A) Equals the benefit accrued as of December 31, 2003 and determined as one-twelfth of the sum of (1) 0.85% of the Participant's Average Earnings determined as of December 31, 2003, multiplied by the Participant's Credited Service as of December 31, 2003, plus (2) an additional 0.75% of the Participant's Average Earnings, determined as of December 31, 2003, in excess of the Social Security Tax Base determined as of December 31, 2003 multiplied by the Participant's Credited Service as of December 31, 2003 (up to a maximum of 35 years),

and

(B) Equals for each individual one-twelfth of the sum of the following calculations for each calendar year beginning after December 31, 2003 that such individual is a Participant: (1) 0.65% of the individual's Earnings while a Participant for such year, plus (2) an additional 0.65% of the individual's Earnings while a Participant for such year in excess of 50% of the Social Security Wage Base for the applicable year, provided that for purposes of the calculation made pursuant to this Section 4.1(b)(i)(B)(2) no Earnings of an individual whether as a Participant or not shall be included once such individual has completed 35 years of Credited Service.

- (ii) Equals \$70.83.

- (c) Notwithstanding any other provision of this Plan to the contrary, the Accrued Benefit of a Participant as determined under Section 4.1(b) shall not be less than the Accrued Benefit of such Participant on December 31, 2003 as calculated under the provisions of the Plan as in effect on December 31, 2003 prior to this Amendment.

Subject to the provisions of Section 5.1, the monthly normal Retirement Income payable upon retirement on or after Normal Retirement Date of a Participant who participated in the EG&G Mound Applied Technologies, Inc. Salaried Employees' Pension Plan or the EG&G Mound Applied Technologies, Inc. Hourly Paid Employees' Pension Plan (the "Mound Plans") prior to participating in the Prior Plan prior to September 30, 1997 shall be equal to his Accrued Benefit, subject to adjustment as provided in this Section 4.1(c). Such Accrued Benefit shall first be increased by adding thereto the Participant's monthly accrued benefits under the Mound Plans, determined in accordance with the provisions thereof in effect on September 30, 1997. Such adjusted Accrued Benefit shall then be offset by the Accrued Benefit attributable to service described in Section 1.22, based on Average Earnings as of the last date of such service. The resulting adjustments shall be indicated in Appendix A hereto.

- (d) Notwithstanding any other provisions of this Plan to the contrary, no further benefits shall accrue under the Plan for any period occurring after December 31, 2004 for any Participant who is employed at the National Radar Testing Facility and whose terms of employment are governed by a collective bargaining agreement between the International Association of Machinists Union and the Employer, except as otherwise may be required by Section 416 of the Code and other applicable laws and regulations. For Plan Years beginning on or after January 1, 2005, the benefits of any Participant described in the preceding sentence shall be calculated as set forth in Section 4.1(b)(i) of the Plan; provided, however, that the affected Participant's Credited Service, Earnings and Social Security Wage Base under Section 4.1(b)(i)(B) shall be calculated as of December 31, 2004.

2.5 Early Retirement

- (a) A Participant who has not reached his Normal Retirement Date but who has reached (i) an age that is within 10 years of his Normal Retirement Age or (ii) his 55th birthday in the case of a Participant who was a participant in the Prior Plan as of December 31, 1988, and completed 10 Years of Vesting Service shall be retired from service on an early Retirement Income on the first day of the calendar month after the Plan Administrator receives his written application to retire.
- (b) The early Retirement Income shall be a deferred Retirement Income beginning on the Participant's Normal Retirement Date and, subject to the provisions of Section 5.1, shall be equal to his Accrued Benefit. However, subject to the provisions of Section 4.2(a) the Participant may elect to receive an early Retirement Income beginning on the first day of any calendar month before his Normal Retirement Date. In that case, the Participant's Retirement Income that otherwise would have commenced on his Normal Retirement Date shall be as follows:

With respect to that portion of the Participant Retirement Income accrued on or prior to December 31, 2003 as set forth in Section 4.1(b)(i)(A) of the Plan, the Participant's Retirement Income that otherwise would have commenced on his Normal Retirement Date shall be reduced for early commencement by 1/15th for each of the first five full years, 1/30th for each of the next five years and 5% for each of the next two years by which the Annuity Starting Date precedes the Participant's Normal Retirement Date, except that in the case of a Participant who has completed at least 30 Years of Vesting Service, the reduction applicable to the portion of the benefit determined under Section 4.1(b)(i)(A)(1) of the Plan or the amount of the benefit determined under Section 4.1(b)(ii) of the Plan shall be none for the first three full years, 8.4% for each of the next two years and 4.2% for each of the next seven years by which the Annuity Starting Date precedes the Participant's Normal Retirement Date. Any reduction described in the preceding sentence shall be applied proportionately to each monthly interval.

- (i) With respect to that portion of the Participant's Retirement Income accrued on or after January 1, 2004 as set forth in Section 4.1(b)(i)(B) of the Plan, the Participant's Retirement Income that otherwise would have commenced on his Normal Retirement Date shall be reduced for early commencement by 1/15th for each of the first five full years, 1/30th for each of the next five years and 5% for each of the next two years by which the Annuity Starting Date precedes the Participant's Normal Retirement Date. Any reduction described in the preceding sentence shall be applied proportionately to each monthly interval.

2.6 Vesting

- (a) A Participant shall have a 100 percent vested nonforfeitable right to his Accrued Benefit upon the earlier to occur of the completion of five Years of Vesting Service or the attainment of age forty-five while in the employ of the Company. If the Participant's employment with the Employer is subsequently terminated for reasons other than retirement or death, he shall be eligible for a vested Retirement Income after the Plan Administrator receives his written application for the Retirement Income.
- (b) The vested Retirement Income shall begin on the Participant's Normal Retirement Date and, subject to the provisions of Section 5.1, shall be equal to his Accrued Benefit as of his date of Separation from Service. However, a Participant who has completed 10 Years of Vesting Service may elect to have his vested Retirement Income begin on the first day of any calendar month after his attainment of the age described in Section 4.2(a) and before his Normal Retirement Date. In that event, the Participant's Retirement Income that otherwise would have commenced on his Normal Retirement Date shall be reduced for early commencement in accordance with the provisions of Section 4.2(b).

2.7 Disability Retirement

- (a) A Participant who has not reached his Normal Retirement Date but who has completed at least 10 Years of Vesting Service and incurred a Disability shall be eligible to receive a Disability Retirement Income commencing on his Normal Retirement Date or on the first day of any month on or after his eligibility for early retirement pursuant to Section 4.2(a).
- (b) The Disability Retirement Income of a Participant commencing on his Normal Retirement Date shall be his normal Retirement Income determined in accordance with Section 4.1, except that (i) the Participant's Average Earnings shall be determined by assuming that his Earnings continued during the period of his Disability at the same rate as in effect on the date of his Separation from Service, (ii) Credited Service shall continue to be granted during the period of his Disability in accordance with the Participant's normal work schedule and (iii) the Participant's long-term disability payments under an Employer-sponsored plan will be reduced by the amount of his normal Retirement Income payable under this Plan.
- (c) The Disability Retirement Income of a Participant commencing on or after his eligibility for early retirement shall be his early Retirement Income determined in accordance with Section 4.2(b), except that (i) the Participant's Average Earnings shall be determined by assuming that his Earnings continued during the period of his Disability at the same rate as in effect on the date of his Separation from Service, (ii) Credited Service shall continue to be granted during the period of his Disability in accordance with the Participant's normal work schedule and (iii) the Participant's long-term disability payments under an Employer-sponsored plan will be reduced by the amount of his early Retirement Income payable under this Plan.

2.8 Qualified Pre-Retirement Spouse's Retirement Income

- (a) A Qualified Pre-Retirement Spouse's Retirement Income is payable to the surviving Spouse of a Participant who at the time of his death had a nonforfeitable vested right to his Accrued Benefit. Such surviving Spouse shall receive a Qualified Pre-Retirement Spouse's Retirement Income, which is of Equivalent Actuarial Value to the form of benefit described in Section 5.1(a) that would begin on the Participant's Normal Retirement Date, calculated in accordance with (i) or (ii) as follows, whichever is applicable:
 - (i)

If the Participant's date of death occurred prior to the earliest date on which he could have elected to receive Retirement Income pursuant to Section 4.2, 4.3 or 4.4 ("earliest retirement age"), such Qualified Pre-Retirement Spouse's Retirement Income shall be calculated as if the Participant had terminated employment on his date of death or on his date of termination of employment, if earlier, had survived to his earliest retirement age, had elected to retire at that time and have payments commence immediately in the form of a Qualified Joint and Survivor Annuity of Equivalent Actuarial Value to the Retirement Income that otherwise would be payable pursuant to Section 5.1(a) and had died on the day after his earliest retirement age. Benefits may commence as early as the date on which the Participant would have attained his earliest retirement age, subject to the provisions of Section 5.3. Benefits commencing after the date on which the Participant would have attained his earliest retirement age shall be of Equivalent Actuarial Value to the benefit the surviving Spouse would have been entitled to if payments had commenced immediately in accordance with this paragraph (a)(i).

- (ii) If the Participant's date of death occurred on or after his earliest retirement age, such Qualified Pre-Retirement Spouse's Retirement Income shall be calculated as if the Participant had retired on the day before his death or on his date of termination of employment, if earlier, with payments commencing immediately in the form of a Qualified Joint and Survivor Annuity of Equivalent Actuarial Value to the Retirement Income that otherwise would be payable pursuant to Section 5.1(a) and had died on the day after his retirement. The surviving Spouse may elect to commence payment under such annuity within a reasonable period after the Participant's death. Benefits that commence later than those that would have been paid to the surviving Spouse under a Qualified Joint and Survivor Annuity shall be actuarially adjusted to reflect the delayed payment.
- (b) The Qualified Pre-Retirement Spouse's Retirement Income shall be paid in monthly installments to, and during the life of, the Participant's surviving Spouse. The earliest period for which the surviving Spouse may receive a Spouse's benefit shall be the month in which the Participant would have attained his earliest retirement age.
- (c) The Participant's surviving Spouse may elect to receive the Qualified Pre-Retirement Spouse's Retirement Income in the form of Option 5 of Section 5.2.

2.9 Maximum Benefits

- (a) Notwithstanding any other provision of this Plan, the total annual amount of a Participant's Retirement Income derived from Employer contributions under this Plan and under all other defined benefit plans of an Employer shall not exceed the Maximum Permissible Benefit pursuant to Section 415(b)(1) of the Code. Benefit increases resulting from the increase in the Defined Benefit Dollar Limitation shall be provided to all Employees participating in the Plan who have one Hour of Service on or after December 31, 2001. For purposes of determining the Maximum Permissible Benefit, the "Defined Benefit Dollar Limitation" is \$160,000, as adjusted, effective January 1 of each year, under Code Section 415(d) in such manner as the Secretary shall prescribe, and payable in the form of a straight life annuity. This limitation as adjusted will apply to limitation years ending with or within the calendar year for which the adjustment applies. For purposes of determining the Maximum Permissible Benefit, the "Defined Benefit Compensation Limitation" is 100% of the Participant's average compensation for the three consecutive years of participation in the Plan in which he received the highest aggregate compensation from the Employer, adjusted as provided below. For purposes of applying the limitations of Code Section 415, compensation shall be determined in accordance with the provisions of Treasury Regulation §1.415-2(d)(2) and (3). For purposes of this Section 4.6, and applying the limitations of Code Section 415, compensation shall include any amount which is contributed or deferred by the Employer on behalf of and at the election of a Participant and which is not includible in gross income by reason of Code Section 125, 402(g)(3) or 457 or, effective January 1, 2001, Code Section 132(f)(4).
- (b) The "Maximum Permissible Benefit" is the lesser of the Defined Benefit Dollar Limitation or the Defined Benefit Compensation Limitation (both adjusted where required, as provided in (i) below and if applicable (ii) or (iii) below).
 - (i) If the Participant has fewer than 10 years of participation in the Plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction, the numerator of which is the number of years (or part thereof) of participation in the Plan and the denominator of which is 10. In the case of a Participant who has fewer than 10 Years of Service with the Employer, the Defined Benefit Compensation Limitation shall be multiplied by a fraction, the numerator of which is the number of Years (or part thereof) of Service with the Employer and the denominator of which is 10.
 - (ii) If the benefit of a Participant begins prior to age 62, the Defined Benefit Dollar Limitation applicable to the Participant at such earlier age is an annual benefit payable in the form of a straight life annuity beginning at the earlier age that is the Equivalent Actuarial Value of the Defined Benefit Dollar Limitation applicable to the Participant at age 62 (adjusted under (a) above, if required). The Defined Benefit Dollar Limitation applicable at an age prior to age 62 is determined as the lesser of (A) the Equivalent Actuarial Value (at such age) of the Defined Benefit Dollar Limitation computed using the interest rate and mortality table specified in Section 1.20 of the Plan and (B) the Equivalent Actuarial Value (at such age) of the Defined Benefit Dollar Limitation

computed using a 5 percent interest rate and the applicable mortality table as defined in Section 1.20 of the Plan. Any decrease in the Defined Benefit Dollar Limitation determined in accordance with this paragraph (ii) shall not reflect a mortality decrement if benefits are not forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.

- (iii) If the benefit begins after the Participant attains age 65, the Defined Benefit Dollar Limitation applicable to the Participant at the later age is the annual benefit payable in the form of a straight life annuity beginning at the later age that is the Equivalent Actuarial Value to the Defined Benefit Dollar Limitation applicable to the Participant at age 65 (adjusted under (i) above, if required). The Equivalent Actuarial Value of the Defined Benefit Dollar Limitation applicable to an age after age 65 is determined as (A) the lesser of the Equivalent Actuarial Value (at such age) of the Defined Benefit Dollar Limitation computed using the interest rate and mortality table specified in Section 1.20 of the Plan and (B) the Equivalent Actuarial Value (at such age) of the Defined Benefit Dollar Limitation computed using a 5 percent interest rate and the applicable mortality table as defined in Section 1.20 of the Plan. For these purposes, mortality between age 65 and the age at which benefits commence shall be ignored.
- (c) For distributions that commenced prior to January 1, 2002, for purposes of determining whether the limitation contained in the first sentence of paragraph (a) has been satisfied, in the case of any benefit that may commence prior to a Participant's Social Security Retirement Age but on or after the Participant's attainment of age 62, the dollar limitation of Code Section 415(b)(1)(A) shall be reduced by 5/9 of 1% for each of the first 36 months and 5/12 of 1% for each of the next 24 months (if applicable) by which benefits commence before the month in which the Participant attains Social Security Retirement Age. Effective January 1, 2002, this paragraph (c) shall no longer apply and shall have no effect under the terms of the Plan.
- (d) For purposes of determining whether the limitation contained in the first sentence of paragraph (a) has been satisfied, any benefit that may commence in a form other than a straight life annuity, the Defined Benefit Dollar Limitation shall be adjusted (in accordance with the regulations prescribed by the Secretary) so that it is of Equivalent Actuarial Value to the limitation for a benefit payable as a straight life annuity using whichever of the following produces the lower applicable limitation: (i) the interest rate and mortality table specified in the second sentence of Section 1.20 or (ii) the interest rate and mortality table specified in the first sentence of Section 1.20 (with respect to a benefit payable in a form other than a straight life annuity) or the early retirement reduction factors described in Section 4.2(b) (with respect to a benefit commencing prior to age 62).
- (e) For purposes of this Section and Section 4.7, references to annual amounts of benefits or contributions shall be for a Limitation Year.

2.10 Limitation in Case of Dual Plans

If a Participant is also participating in one or more defined contribution plans of an Employer, the annual additions (as defined in Code Section 415(c)(2)) to such defined contribution plans shall be limited (or reduced, if applicable) so that a "combined benefit factor" in excess of 1.0 shall not result, pursuant to Code Section 415(e). The provisions of this Section 4.7 will cease to apply on and after any Limitation Year beginning after December 31, 1999.

2.11 Transfers and Employment

- (a) If an Employee becomes employed by the Employer in any capacity other than as an Eligible Employee, he shall retain any Credited Service he has under this Plan and future Service with the Employer shall count as Years of Vesting Service under the Plan. Upon his later retirement or termination of employment with the Employer, any benefits to which he is entitled under the Plan shall be determined under the Plan provisions in effect on the date he ceases to be an Eligible Employee and only on the basis of his Credited Service accrued while he was an Eligible Employee.
- (b) Subject to the Break in Service provisions of Article III, if a person who is originally employed by the Employer in any capacity other than as an Eligible Employee becomes an Eligible Employee, his period of Service with the Employer before becoming an Eligible Employee shall count as Vesting Service under the Plan. Upon his later retirement or termination of employment, the benefits payable under the Plan shall be computed under the Plan provisions in effect at that time and only on the basis of the Credited Service accrued while he is an Eligible Employee.

ARTICLE III
PAYMENT OF RETIREMENT INCOME

3.1 Automatic Form of Payment

- (a) If a Participant does not have a Spouse on his Annuity Starting Date, and if he has not elected an optional benefit as provided in Section 5.2, his Retirement Income shall be payable in monthly installments ending with the last monthly payment before death.
- (b) If a Participant has a Spouse on his Annuity Starting Date, and if he has not elected an optional form of payment as provided in Section 5.2, his Retirement Income shall be a Qualified Joint and Survivor Annuity. The Qualified Joint and Survivor Annuity provides Retirement Income to the Participant for his life in an amount that is of Equivalent Actuarial Value to the Retirement Income otherwise payable pursuant to Section 5.1(a). Upon the Participant's death on or after his Annuity Starting Date, 50 per cent of the initial amount of monthly Retirement Income payable to the Participant will be paid to, and during the life of, the surviving Spouse.
- (c) A single sum payment of Equivalent Actuarial Value shall be made in lieu of all benefits if the present value of a Participant's Retirement Income at the time of any Separation from Service does not exceed \$1,000. The single sum payment will be made as soon as practicable following the Participant's Separation from Service. If a Participant's vested Retirement Income is zero, a single sum payment of Equivalent Actuarial Value shall be deemed to have been paid and the entire Accrued Benefit shall be treated as a forfeiture and applied as provided in Section 6.1. If such Participant again becomes a Participant before incurring five consecutive one-year Breaks in Service, his Accrued Benefit will be restored to the amount of such Accrued Benefit on the date of the deemed distribution.

3.2 Optional Forms of Payment

Any Participant may, by written notice received by the Plan Administrator during the election period specified in Section 5.3, elect to convert the Retirement Income otherwise payable to him into an optional benefit of Equivalent Actuarial Value, as provided in one of the options named below. However, if the Beneficiary selected is not the Participant's Spouse or if the option selected is not a joint and survivor form of benefit, the amount of the monthly benefit payable to the Beneficiary pursuant to the option shall not exceed the applicable percentage of the Retirement Income payable to the Participant during his lifetime determined under Treasury Regulation §1.401(a)(9)-6 Q&A-2.

- Option 1. Retirement Income payable pursuant to Section 5.1(a), even if the Participant has a Spouse.
- Option 2. A modified Retirement Income payable during the Participant's life and after his death payable at the rate of 50 or 100 per cent of his modified Retirement Income, as the Participant elects, during the life of and to the Beneficiary named by him when he elected the option.
- Option 3. A modified Retirement Income payable in monthly installments ending with the last monthly payment before death, unless the Participant has not received 120 monthly payments (the "period certain"), in which case payments shall continue to be made to his Beneficiary until all guaranteed payments have been made. If the Beneficiary also dies before the expiration of the period certain, a single sum payment of Equivalent Actuarial Value to the remaining guaranteed payments shall be paid to the estate of the last to survive of the Participant and his Beneficiary. In no event, however, shall payments under this Option 3 extend beyond the joint and last survivor expectancy of the Participant and his Beneficiary.
- Option 4. Retirement Income payable in monthly installments during the Participant's life, beginning only on an Annuity Starting Date that is prior to the first day on which the Participant would otherwise be entitled (upon proper application) to receive his old age Social Security benefit, whether or not on a reduced basis because of early commencement of such old age benefit. Retirement Income payments on or after such first day shall be adjusted to provide, insofar as practicable, that the total of such Retirement Income and the estimated primary old age Social Security benefit payable on such first day shall equal the monthly amount of Retirement Income payments prior to such first day.
- Option 5. A single sum payment of Equivalent Actuarial Value provided the present value of the Participant's Retirement Income exceeds \$1,000 but does not exceed \$5,000. A Participant may elect to receive such single sum payment without regard to the spousal consent requirements in Section 5.3(c).

3.3 Election of Options

- (a) The Plan Administrator, no less than 30 days and no more than 90 days prior to the Participant's Annuity Starting Date, shall furnish each Participant a written explanation in nontechnical language of (i) the terms and conditions of the Qualified Joint and Survivor Annuity provided by Section 5.1(b), (ii) the financial effect upon the Participant's Retirement Income if he instead elects payment under one of the optional forms described in Section 5.2, (iii) in the case of a married Participant the rights of the Participant's Spouse to consent or not to consent to the Participant's election of an optional form of payment and (iv) the right of the Participant to make, and to revoke, an election under Section 5.2. An election under Section 5.2 may be made at any time after that information is furnished to the Participant and before the Participant's Annuity Starting Date; provided that the period during which the election may be made shall be the 90-day period ending on the Participant's Annuity Starting Date. An election of an option under Section 5.2 may be revoked on a form supplied by the Plan Administrator, and a new election may be made at any time and any number of times during the applicable election period.
- (b) An election of an option under Section 5.2 shall be made by written notice received by the Plan Administrator prior to the Participant's Annuity Starting Date. The election shall become effective on the Participant's Annuity Starting Date. The Participant may revoke his option by written notice to the Plan Administrator prior to that date. Notwithstanding the foregoing, a Participant's Annuity Starting Date may be before the date the election is made, provided that the Participant may revoke his option within the 7-day period beginning on the day after the Participant receives the explanation described in paragraph (a) above and that distribution under the option does not begin until the expiration of that 7-day period. A Participant's Annuity Starting Date may also be less than 30 days after receipt of the written explanation described in paragraph (a) above, provided that the Participant may revoke his option and distributions may not begin until the later of the Annuity Starting Date or the expiration of the 7-day period referred to in the preceding sentence.

An election of Option 2 shall be deemed to be revoked in the event the Beneficiary named under the option shall die prior to the Participant's Annuity Starting Date and the Participant may thereafter make another election, subject to the conditions required therefor. If a Participant who has elected an option shall die prior to the effective date of his election, the option shall not become operative and the provisions of Section 4.5 shall apply. A Participant may change the Beneficiary named in his election at any time prior to the later of the Participant's Annuity Starting Date or the date distribution under the option actually commences, or, in the case of Option 3, at any time prior to the expiration of the period certain.

- (c) If the Participant has an eligible Spouse and if the Participant desires to waive the Qualified Joint and Survivor Annuity form of Retirement Income, his eligible Spouse must consent to such waiver (within the 90-day election period) in a written instrument received by the Plan Administrator. The eligible Spouse's consent must acknowledge the financial effect of the waiver. The waiver must either (i) designate the Beneficiary (if any) and form of Retirement Income payment or (ii) expressly permit the Participant to designate any Beneficiary and the form of payment without further consent by the eligible Spouse, and must (iii) further acknowledge that the eligible Spouse has the right to limit the consent to a specific Beneficiary and form of payment and state that any

relinquishment of such right is voluntary by the eligible Spouse. The eligible Spouse's written consent and acknowledgment must be witnessed by a Plan representative or a notary public. The Participant may revoke the election at any time and any number of times before his Retirement Income payments begin.

Notwithstanding the foregoing, spousal consent to a Participant's designation shall not be required if:

- (i) the eligible Spouse is designated as the primary beneficiary or contingent annuitant by the Participant and the method of payment chosen for the eligible Spouse by the Participant conforms with the definition of a qualified joint and survivor annuity under the Code, or
- (ii) it is established to the satisfaction of the Plan Administrator that spousal consent cannot be obtained because there is no eligible Spouse, because the eligible Spouse cannot be located or because of such other circumstances as may be prescribed in regulations issued by the Secretary of the Treasury.

3.4 Required Commencement Dates

- (a) Unless a Participant otherwise elects, the payment of benefits under the Plan to the Participant will begin not later than the 60th day after the close of the Plan Year in which the later of the following events occurs:
 - (i) The Participant attains his Normal Retirement Age, or
 - (ii) The Participant's Separation from Service with the Employer.
- (b) Notwithstanding any provision herein to the contrary, a Participant's benefit payments shall commence not later than the April 1 of the calendar year following the later of the calendar year in which he attains age 70½ or in which his Separation from Service occurs, except that benefit payments to a Participant who is a Five Percent Owner, as defined in Section 9.7(b), shall commence not later than the April 1 of the calendar year following the calendar year in which he attains age 70½. In the case of a Participant other than a Five Percent Owner who has a Separation from Service in a calendar year after the calendar year in which he attains age 70½, his Accrued Benefit shall be actuarially increased to take into account the period after age 70½ in which the Participant was not receiving any benefits under the Plan, to the extent required under Code Section 401(a)(9)(C)(iii).

Distributions to a Participant must be made over the life of the Participant (or the lives of the Participant and his Spouse or Beneficiary) or over a period not exceeding the life expectancy of the Participant (or the life expectancies of the Participant and his Spouse or Beneficiary).

Distributions will be made in accordance with Section 401(a)(9) of the Code and the proposed regulations issued thereunder including Section 1.401(a)(9)-2 of such regulations, and the provisions reflecting Code Section 401(a)(9) shall override any distribution options in the Plan inconsistent with Section 401(a)(9).

3.5 Direct Rollovers

(a) In General

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section 5.5, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) Eligible Rollover Distribution

An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (no less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income.

(c) Eligible Retirement Plan

An Eligible Retirement Plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, an annuity contract described in Section 403(b) of the Code, a qualified trust described in Section 401(a) of the Code, or an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state which agrees to separately account for amounts transferred into such plan from the Plan, that accepts the Distributee's Eligible Rollover Distribution.

(d) Distributee

A Distributee includes an Employee or former employee. In addition, the Employee's or former employee's surviving Spouse and the Employee's or former employee's Spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the Spouse or former spouse.

(e) Direct Rollover

A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

**ARTICLE IV
CONTRIBUTIONS**

4.1 Employer's Contributions

It is the intention of the Employer to continue the Plan and make the contributions that are necessary to maintain the Plan on a sound actuarial basis and to meet the minimum funding standards prescribed by law. However, should the Board of Directors terminate the Plan in accordance with the provisions of Article X, the Employer shall discontinue its contributions. Any forfeitures shall be used to reduce the Employer's contributions otherwise payable.

4.2 Return of Contributions

- (a) If all or part of the Employer's contributions hereunder are conditioned upon their deductibility under Section 404 of the Code and the deduction for all or any part of such contributions to the Plan is disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Employer without interest, but reduced by any investment loss attributable to those contributions. The return shall be made within one year after the date of the disallowance of deduction. All Employer contributions to the Plan are conditioned upon their deductibility.
- (b) If an Employer contribution is made due to a mistake in fact, the Employer may require the Trustee to return the contribution, without interest but reduced by any investment loss allocable to the contribution. The return shall be made as soon as practicable within one year after the date the contribution was made.
- (c) If an Employer contribution hereunder is conditioned on initial qualification of the Plan under Section 401(a) of the Code and if the Plan receives an adverse determination letter with respect to its initial qualification, such contribution shall be returned to the Employer within one year after the date the initial qualification is denied, but only if the application for determination is made by the time prescribed by law for filing the Employer's return for the taxable year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe. All Employer contributions hereunder are conditioned upon the initial qualification of the Plan.

ARTICLE V ADMINISTRATION OF PLAN

5.1 Records and Notices

The Plan Administrator shall keep a record of all its proceedings and acts with respect to its administration of the Plan and shall maintain all such books of accounts, records and other data as may be necessary for the proper administration of the Plan. The Plan Administrator shall notify the Trustees of any action taken by the Plan Administrator affecting the Trustees and its obligations or rights regarding the Plan and, when required, shall notify any other interested person or persons.

5.2 Powers and Duties

The Plan Administrator shall have the responsibility for the general administration of the Plan and for carrying out the provisions of the Plan. The Plan Administrator shall administer the Plan in accordance with its terms and shall discharge its duties with care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Plan Administrator shall have such powers as may be necessary to discharge its duties in managing and controlling the operations and administration of the Plan. The Plan Administrator shall have full and complete authority and control with respect to the operations and administration of the Plan unless the Plan Administrator allocates and delegates such authority or control pursuant to the procedures stated in Section 7.2(b) or (c). The Plan Administrator shall have discretionary authority to construe the terms of the Plan and determine eligibility for benefits (including but not limited to determination of an individual's eligibility for Plan participation, the right to and amount of any benefit payable under the Plan, and the date on which an individual ceases to be a Participant), and decide disputed claims in accordance with its interpretation of the terms of the Plan. Decisions of the Plan Administrator shall be subject to court review only to determine whether such decisions of the Plan Administrator are an abuse of the Plan Administrator's discretion hereunder. The Plan Administrator shall have no authority or control with respect to the assets of the Plan other than as specifically provided herein and shall not receive any compensation from the Plan for his services as such. The powers of the Plan Administrator shall include, but shall not be limited to, the following:

- (a) To employ such accountants, counsel or other persons as it deems necessary or desirable in connection with the administration of the Plan and to employ one or more persons to render advice with regard to any administrative responsibility pursuant to the Plan. The Trust Fund shall bear the costs of such services and other administrative expenses unless paid by the Employer.
- (b) To designate in writing persons who are to perform any of its powers and duties hereunder including, but not limited to, fiduciary responsibilities (other than any responsibility to manage or control the assets of the Plan) pursuant to the Plan.
- (c) To allocate in writing any of its powers and duties hereunder, including but not limited to fiduciary responsibilities (other than any responsibility to manage or control the assets of the Plan) among those persons who have been designated to perform fiduciary responsibilities pursuant to the Plan.
- (d) To construe and interpret the Plan.
- (e) Subject to Section 7.4, to resolve all questions arising in the administration, interpretation and application of the Plan, including, but not limited to, questions as to the eligibility or the right of any person to a benefit.
- (f) To adopt such by-laws, rules, regulations, forms and procedures from time to time as it deems advisable and appropriate in the proper administration of the Plan.
- (g) To receive from Participants such information as shall be necessary for the proper administration of the Plan.
- (h) To furnish, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate.
- (i) To receive from the Trustees and review reports of the financial condition and receipts and disbursements of the Trust Fund.
- (j) To prescribe procedures to be followed by any person in applying for distributions pursuant to the Plan and to designate the forms or documents, evidence and such other information as the Plan Administrator may reasonably deem necessary, desirable or convenient to support an application for such distribution.
- (k) To issue directions to the Trustees and thereby bind the Trustees concerning all benefits to be paid pursuant to the Plan.
- (l)

To apply consistently and uniformly the rules, regulations and determinations to all Participants and Beneficiaries in similar circumstances.

5.3 Actuary

As an aid to the Plan Administrator in adopting tables and in fixing the rate of contributions payable to the Plan, the actuary designated by the Board of Directors shall make annual actuarial valuations of the contingent assets and liabilities of the Plan and shall certify to the Plan Administrator the tables and rates of contribution that he would recommend for use by the Plan.

5.4 Claims Procedure

A Participant or Beneficiary who believes he is entitled to payments other than those awarded by the Plan Administrator may file a claim in writing with the Plan Administrator stating the nature of his claim, the facts supporting his claim, the amount claimed and his name and current address. The Plan Administrator shall investigate, consider and render a written decision regarding any claim filed pursuant to this Section 7.4. If the Plan Administrator denies such claim, it shall render a written decision within 90 days of receipt of the claim describing the reasons for denial, specifically referring to pertinent Plan provisions, informing the claimant that he or his duly authorized representative may review pertinent documents and may submit issues and comments in writing and advising the claimant of the procedure for appealing such denial.

Within 60 days after notice that a claim is denied, the claimant may file a written appeal to the Plan Administrator, including any comments, statements or documents he may wish to provide. The Plan Administrator shall, within a reasonable time after the submission of a written appeal by a claimant, entertain any oral presentation the claimant or his duly authorized representative wishes to make. Within 60 days (120 days if special circumstances require an extension of time for processing) after the later of the submission of the written appeal or the oral presentation by the claimant or his personal representative, the Plan Administrator shall render a determination on the appeal of the claim in a written statement including the reasons therefor. The determination so rendered by the Plan Administrator shall be binding upon all parties.

ARTICLE VI MANAGEMENT OF FUNDS

6.1 Trustee

The Company, by resolution of the Board of Directors, shall appoint one or more Trustees to receive and hold in trust all contributions paid into the Trust Fund. Such Trustee or Trustees shall serve at the pleasure of the Board of Directors and shall have such rights, powers and duties as the Board of Directors shall from time to time determine. The Employers shall have no liability for the payment of benefits under the Plan or for the administration of the funds paid over to the Trustee.

6.2 Exclusive Benefit Rule

Except as otherwise provided in the Plan, no part of the corpus or income of the funds of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons entitled to benefits under the Plan before the satisfaction of all liabilities with respect to them. No person shall have any interest in or right to any part of the earnings of the funds of the Plan, or any right in, or to, any part of the assets held under the Plan, except as and to the extent expressly provided in the Plan.

6.3 Investment Managers

Any Investment Manager, as defined in Section 3(38) of ERISA, may be appointed by the Company to manage (including the power to acquire and dispose of) all or any part of the Trust Fund. In the event of any such appointment, the Company shall establish the portion of the assets of the Trust that shall be subject to the management of the Investment Manager and shall so notify the Trustee in writing. With respect to such assets over which an Investment Manager has investment responsibility, the Investment Manager shall possess all of the investment powers and responsibilities granted to the Trustee under the Trust Agreement, and the Trustee shall invest and reinvest such assets pursuant to the written directions of the Investment Manager. If the Company so directs, an Investment Manager shall have the power to acquire and dispose of assets in the name of the Trust Fund.

ARTICLE VII TOP–HEAVY PROVISIONS

7.1 When Applicable

If this Plan is determined to be “Top–Heavy”, as defined in Section 9.5, for any Plan Year, the provisions of this Article shall supersede any conflicting provisions in the Plan.

7.2 Minimum Accrual

For each Plan Year that this Plan is Top–Heavy, each Participant who is not a Key Employee must accrue a nonintegrated benefit that, when expressed as an annual benefit payable as a single life annuity commencing at Normal Retirement Age, is not less than two percent of the Participant's Average Earnings multiplied by his years of Credited Service. Average Earnings are averaged over the five consecutive years (disregarding years during which the Plan is not Top–Heavy) for which the Participant had the highest Earnings. However, a Participant's minimum benefit is not required to exceed 20 percent of his Average Earnings. This minimum accrual shall be made even though, under other Plan provisions, the Participant would not otherwise be entitled to receive an accrual or would have received a lesser accrual for the year because of (i) the Participant's failure to be employed on a specified date such as the last day of the Plan Year, (ii) the Participant's failure to make mandatory contributions, if any, to the Plan, or (iii) the Participant's Earnings being less than a stated amount. To the extent that the Participant does not receive the minimum accrual under this Plan but is covered under the EG&G Technical Services, Inc. Savings Plan, the requirements of this Section shall be satisfied if the minimum benefit or minimum allocation requirements applicable to Top–Heavy plans are met in the EG&G Technical Services, Inc. Savings Plan. For purposes of determining Credited Service with the Employer under this Section 9.2, any service with the Employer shall be disregarded to the extent that such service occurs during a Plan Year when the Plan benefits (within the meaning of Section 410(b) of the Code) no Key Employee or former Key Employee.

7.3 Vesting Rules

For any Plan Year in which this Plan is Top–Heavy, the minimum vesting schedule as described in Section 9.4 will automatically apply to the Plan in lieu of the schedule provided in Article IV. The minimum vesting schedule applies to all accrued benefits within the meaning of Code Section 411(a)(7) (except those attributable to Participant contributions, if any), including benefits accrued before the Plan became Top–Heavy. Further, no reduction in vested benefits may occur in the event the Plan's status as Top–Heavy changes for any Plan Year. However, this Section does not apply to the Accrued Benefit of any Employee who does not complete any Vesting Service regarding any period after the Plan has initially become Top–Heavy and such Employee's Accrued Benefit will be determined without regard to this Section.

7.4 Vesting Schedule

In the event the minimum vesting schedule shall apply, the nonforfeitable interest of each Participant in his Accrued Benefit attributable to Employer contributions shall be determined on the basis of the following:

NUMBER OF YEARS OF SERVICE	VESTED INTEREST
Less than 2 Years	0%
2 Years but less than 3	20%
3 Years but less than 4	40%
4 Years but less than 5	60%
5 Years or more	100%

7.5 Top–Heavy Determination

A Top–Heavy Plan is a Plan in which, as of the Valuation Date, the ratio of the present value of the accrued benefits for Key Employees to the present value of the accrued benefits for all Employees exceeds 60 percent. For purposes of determining the present value of the accrued benefit of any Employee or the amount of an account of any Employee, distributions made with respect to such Employee under the Plan (and any plan aggregated with the Plan under Section 416(g)(2) of the Code) during the one–year period ending on the Determination Date must be included. The preceding sentence shall apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death or disability, this provision shall be applied by substituting five–year period for one–year period. The accrued benefits and accounts of an individual who has not performed services for the Employer during the one–year period ending on the Determination Date shall not be taken into account.

The Determination Date is the last day of the preceding Plan Year. The Valuation Date is the day during the Plan Year in which the Determination Date occurs that is used in computing Plan costs for minimum funding.

Present value shall be based on the interest rate and mortality table described in the second sentence of Section 1.20. If this Plan is required to be or is permissively aggregated with any other plan or plans as provided in Section 9.6, the same mortality and interest assumptions shall apply to all plans that are aggregated.

The present value of accrued benefits of any Employee other than a Key Employee under any defined benefit plan used in testing whether the Plan is Top-Heavy shall be determined as if such benefits accrued not more rapidly than the slowest accrual rate permitted under Code Section 411(b)(1)(C) unless the same accrual method uniformly applies for all defined benefit plans maintained by the Employer.

7.6 Aggregation Groups

The required aggregation group consists of each plan of the Employer in which a Key Employee is a participant and each other plan of the Employer that enables any plan of such Employer to meet the qualification requirements of Code Section 401(a)(4) and the minimum participation standards of Code Section 410. The Employer may permit any plan not required to be included in an aggregation group as being part of such group if such group would continue to meet the Code Section requirements previously set forth.

Each plan of the Employer required to be included in an aggregation group shall be treated as a Top-Heavy plan if such group is a Top-Heavy group. A required aggregation group will be considered a Top-Heavy group if the sum of the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans included in such group and the aggregate of the account balances of Key Employees under all defined contribution plans included in such groups increased by the aggregate distributions made in the five-year period ending on the Determination Date exceeds 60 percent of a similar sum determined for all Employees.

7.7 Key Employee Defined

- (a) A Key Employee is any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date was (i) an officer of the Employer having annual compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), (ii) a Five Percent Owner of the Employer or (iii) is a One Percent Owner and has annual compensation from the Employer of more than \$150,000.

For purposes of determining if an officer is a Key Employee, annual compensation means compensation within the meaning of Section 415(c)(3) of the Code. The determination of who is a Key Employee will be made in accordance with Section 416(l)(1) of the Code and the applicable regulations and other guidance of general applicability thereunder.

- (b) A Five Percent Owner is any Employee who owns more than five percent of the outstanding stock of the corporation or stock possessing more than five percent of the total combined voting power of all stock of the corporation.
- (c) A One Percent Owner is any Employee who owns more than one percent of the outstanding stock of the corporation or stock possessing more than one percent of the total combined voting power of all stock of the corporation.

ARTICLE VIII RETIREE HEALTH PLAN ACCOUNT

8.1 Establishment of Retiree Health Plan

- (a) There is created, established and maintained under this Plan a separate account known as the Retiree Health Plan Account. The Trustee and Plan Administrator agree to hold and administer the Retiree Health Plan Account, and to receive contributions hereto, for the purpose of providing for the payment of certain medical expenses, pursuant to Section 401(h) of the Code, for Covered Retirees and their Covered Dependents (as such terms are defined below). The separate account shall be for record keeping purposes only. Funds contributed to the Retiree Health Plan Account may be invested without identification of which investments are allocable to the Retiree Health Plan Account.
- (b) (i) No part of the income or corpus of the Retiree Health Plan Account shall be (either within the taxable year of contribution or thereafter) used for, or diverted to, any purpose (including the provision of any retirement benefits provided under the Plan) other than the provision of Medical Benefits, at any time prior to the satisfaction of all liabilities under this Plan with regard to the payment of Medical Benefits in accordance with this Article X. Notwithstanding the above, the payment of any necessary or appropriate expenses attributable to the administration of the Retiree Health Plan Account may be made from the income or corpus of such account.

(ii) Notwithstanding any other termination provisions herein, any amounts in the Retiree Health Plan Account which remain in such account following satisfaction of all liabilities for the payment of Medical Benefits arising under this Article X shall be returned to the Employer.
- (c) Notwithstanding the foregoing, no Medical Benefits shall be payable to any person who is, or ever has been, a Key Employee, as defined in Section 9.7, or his Covered Dependents.

8.2 Definitions

For purposes of this Article X, the following terms shall have the meaning set forth below unless otherwise clearly required by the context:

- (a) "Covered Dependent" shall mean a Covered Retiree's dependent who meets the conditions for coverage under the EG&G Technical Services, Inc. Retiree Health Plan. In no event will the term Covered Dependent include any person who is an eligible Covered Retiree himself or any person who is employed full-time with the Employer. If both parents of any Covered Dependent child are eligible Covered Retirees, then the Covered Dependent child shall be considered as a Covered Dependent of only one of the Covered Retirees.
- (b) "Covered Retiree" shall mean a Retired Participant who has completed at least ten (10) Years of Vesting Service on his Normal Retirement Date or date of eligibility for early retirement. In no event shall a Covered Retiree include a person not covered under the EG&G Technical Services, Inc. Retiree Health Plan, or a person who is or ever was a Key Employee.
- (c) "Medical Benefits" shall mean, with respect to a Covered Retiree, a percentage of the Per Capita Retiree Health Cost, such percentage being equal to \$3,400 (as indexed from time to time) divided by the Per Capita Retiree Health Cost, but in no event in excess of 100% of such cost.
- (d) "Per Capita Retiree Health Cost" for any year means the total annual Employer cost of claims under the EG&G Technical Services, Inc. Retiree Health Plan, divided by the number of retired employees covered under that plan at any time during that year.
- (e) "EG&G Technical Services, Inc. Retiree Health Plan" shall mean the EG&G Technical Services, Inc. health plan, as it relates to retired persons, as it shall be amended from time to time, and the provisions of such Plan shall be incorporated by reference herein.
- (f) "Retired Participant" means an individual who was an active Participant under this Plan until his retirement date and who retires from employment with the Employer and is thereupon immediately eligible to receive retirement benefits hereunder.

8.3 Election to Continue Coverage

In the event a Covered Dependent loses coverage as a result of the death or divorce of a Covered Retiree, such Covered Dependent shall have coverage continuation rights as shall be provided under the EG&G Technical Services, Inc. Retiree Health Plan, and the provisions of such continuation coverage shall be incorporated by reference with respect to benefits under the EG&G Technical Services, Inc. Retiree Health Plan Account created hereunder. Because such continuation coverage shall be provided under the EG&G Technical Services, Inc. Retiree Health Plan at the Covered Dependent's expense, no further benefits

will be paid from the Retiree Health Plan Account with respect to such Covered Dependents.

8.4 Funding Method and Policy

All contributions to fund benefits provided under this Section shall be made by the Employer, except those relating to continuation coverage described in Section 10.3. Subject to the restrictions of this Section, the Employer shall contribute to the Retiree Health Plan Account annually an amount that is reasonably estimated to cover the total cost of the benefits to be provided hereunder and that satisfies the general requirements applicable to deductions allowable under Code Section 404 (as set forth in Treasury Regulations Section 1.404(a)–3(f)). The total cost of providing Medical Benefits shall be determined in accordance with any generally accepted actuarial method that is reasonable in view of the provisions and coverage of the Plan, the funding medium, and other applicable considerations.

8.5 Subordination to Retirement Benefits

It is intended that the Medical Benefits provided under this Article X be subordinate at all times to the retirement benefits provided under the Plan. Therefore, the aggregate of contributions to the Retiree Health Plan Account shall at no time exceed 25 percent of the aggregate of contributions for all purposes of this Plan, other than contributions to fund past service credits. For this purpose contributions to this plan for benefits other than Medical Benefits shall not be deemed to be less than the cost of such benefits determined under the projected unit credit method (other than the cost of past service credits).

8.6 Benefits Provision

The benefits payable pursuant to this Section shall be limited to the payment of Medical Benefits for Covered Retirees and their Covered Dependents. The Medical Benefits provided under this Section and the Employer contributions to fund said Benefits shall not discriminate in favor of the highly compensated employees of the Employer within the meaning of Code Section 414(q).

8.7 Coordination with EG&G Technical Services, Inc. Retiree Health Plan

Benefits under this plan shall be provided by reimbursing annually the Employer or other paying agent under the EG&G Technical Services, Inc. Retiree Health Plan for the percentage of the Per Capita Retiree Health Cost for each Covered Retiree.

8.8 Reservation of the Right to Terminate Benefits

The Employer reserves the right to amend or terminate the Medical Benefits provided hereunder or the EG&G Technical Services, Inc. Retiree Health Plan at any time. In such event assets in the Medical Benefit Account shall be used to provide the Medical Benefits provided hereunder, both to Covered Retirees and those Participants who at the date of termination subsequently become Covered Retirees, but only to the extent assets remain in such account. After the satisfaction of all such liabilities, any assets remaining shall revert to the Employer.

8.9 Disallowance of Deduction

Notwithstanding anything to the contrary contained herein, the provisions of Section 6.2(a) and (c) shall apply with respect to all contributions made to the Retiree Health Plan Account.

ARTICLE IX AMENDMENT, MERGER AND TERMINATION

9.1 Amendment of Plan

The Board of Directors reserves the right at any time and from time to time, and, to the extent permitted by the Code or Treasury Regulations, retroactively if deemed necessary or appropriate, to amend in whole or in part any or all of the provisions of the Plan. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan before the satisfaction of all liabilities with respect to them. No amendment shall be made that has the effect of decreasing the Accrued Benefit of any Participant or of reducing the nonforfeitable percentage of the Accrued Benefit of a Participant below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted or, if later, the date on which the amendment becomes effective. For purposes of the preceding sentence, an amendment that has the effect of (i) eliminating or reducing an early retirement benefit or a retirement-type subsidy, or (ii) eliminating an optional form of benefit, with respect to benefits attributable to service before the amendment shall be treated as reducing Accrued Benefits. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a Participant who satisfies (either before or after the amendment) the preamendment conditions for the subsidy. If the Plan is amended in any way that directly or indirectly affects the computation of a Participant's nonforfeitable percentage, each Participant with at least three Years of Vesting Service may elect, within a reasonable period after the adoption of the amendment, to have his nonforfeitable percentage computed without regard to such amendment.

9.2 Merger or Consolidation

The Plan may not be merged or consolidated with, and its assets or liabilities may not be transferred to, any other plan unless each person entitled to benefits under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer that is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

9.3 Additional Participating Employers

- (a) If any company is or becomes a subsidiary of or associated with the Company, the Board of Directors may include the employees of that subsidiary or associated company in the participation of the Plan upon appropriate action by that company necessary to adopt the Plan. In that event, or if any persons become Employees of an Employer as the result of merger or consolidation or acquisition of all or part of the assets or business of another company or for purposes of a specific assignment at a specific location, the Board of Directors shall determine to what extent, if any, previous service with the subsidiary, associated or other company or at the specific location shall be recognized under the Plan, but subject to the continued qualification and tax-exempt status of the Plan and trust, respectively, under the Code.
- (b) Any Employer may terminate its participation in and withdraw from the Plan upon appropriate action by its board of directors, in which event the funds of the Plan held on account of Participants in the employ of that Employer shall be determined by the Plan Administrator and shall be applied as provided in Section 11.4 if the Plan should be terminated, or shall be segregated by the Trustee as a separate trust, pursuant to certification to the Trustee by the Plan Administrator, continuing the Plan as a separate plan for the employees of that Employer under which the board of directors of that Employer shall succeed to all the powers and duties of the Board of Directors, including the appointment of a plan administrator. Except as required by applicable law, the withdrawal of an Employer from the Plan shall not constitute a partial or complete termination of the Plan as thereafter in effect with respect to any other Employer.

9.4 Termination of Plan

The Employer intends to continue the Plan indefinitely. However, the Board of Directors may terminate the Plan for any reason at any time. In case of termination of the Plan, the rights of Participants to the benefits accrued under the Plan to the date of the termination, to the extent then funded or guaranteed by the Pension Benefit Guaranty Corporation, if greater, shall be nonforfeitable. The funds of the Plan shall be used for the exclusive benefit of persons entitled to benefits under the Plan as of the date of termination, except as provided in Section 6.2. However, any funds not required to satisfy all liabilities of the Plan for benefits because of erroneous actuarial computation shall be returned to the Employer. The Plan Administrator shall determine on the basis of actuarial valuation the share of the funds of the Plan allocable to each person entitled to benefits under the Plan in accordance with Section 4044 of ERISA or corresponding provision of any applicable law in effect at the time. In the event of a partial termination of the Plan, the provisions of this Section shall be applicable to the Participants affected by that partial termination.

ARTICLE X MISCELLANEOUS PROVISIONS

10.1 Limitation of Liability

Neither the Company, any Employer, the Plan Administrator, nor any of their respective directors, officers and employees, shall incur any liability for any act or failure to act unless such act or failure to act constitutes a lack of good faith, willful misconduct or gross negligence in relation to the Plan or the Trust Fund.

10.2 Indemnification

The Employer indemnifies and saves harmless the Plan Administrator from and against any and all loss resulting from liability to which the Plan Administrator may be subjected by reason of any act or conduct (except willful misconduct or gross negligence) in the Plan Administrator's official capacity in the administration of this Plan, the Trust Fund or both, including all expenses reasonably incurred in the Plan Administrator's defense, in case the Employer fails to provide such defense. The indemnification provisions of this Section 12.2 do not relieve the Plan Administrator from any liability under ERISA for breach of a fiduciary duty. Furthermore, the Plan Administrator and the Employer may execute a letter agreement further delineating the indemnification agreement of this Section 12.2, provided the letter agreement must be consistent with and does not violate ERISA. The indemnification provisions of this Section 12.2 extend to the Trustee solely to the extent provided by a letter agreement executed by the Trustee and the Employer.

10.3 Compliance with ERISA

Anything herein to the contrary notwithstanding, nothing above or any other provision contained elsewhere in the Plan shall relieve a fiduciary or other person of any responsibility or liability for any responsibility, obligation or duty imposed upon him pursuant to Title I, Part 4 of ERISA. Furthermore, anything in this Plan to the contrary notwithstanding, if any provision of this Plan is voided by ERISA Sections 410 and 411, such provision shall be of no force and effect only to the extent that it is voided by such Section.

10.4 Nonalienation of Benefits

Except with respect to any indebtedness owing to the Trust Fund created hereunder or payments required pursuant to a "Qualified Domestic Relations Order," as defined by the Code, benefits payable under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, including any such liability which is for alimony or other payment for the support of a spouse or former spouse, or any relative of a Participant prior to actually being received by the person entitled to the benefit pursuant to the terms of the Plan. Any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to amounts payable hereunder shall be void. Furthermore, no benefit under the Plan shall in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit. If the terms of this Section 12.4 are contrary to the law governing in a particular circumstance, then, only as to that circumstance, or any such payment shall be exempt to the maximum extent permitted by such law.

10.5 Employment Not Guaranteed By Plan

Neither the establishment of the Plan nor its amendment nor the granting of a benefit pursuant to the Plan shall be construed as giving any Participant the right to continue as an employee of an Employer, as limiting the rights of such Employer to dismiss or impose penalties upon the Participant or as modifying in any other way the terms of employment of any Participant.

10.6 Form of Communication

Any election, application, claim, notice or other communication required or permitted to be made by or to a Participant, the Plan Administrator, the Company, or an Employer in writing shall be made in such form as the Plan Administrator, the Company or the Employer, as the case may be, shall prescribe. Such communication shall be effective upon mailing if sent first class, postage prepaid and addressed to the addressee at its principal office, or to the Participant at his last known address, or upon personal delivery, if delivered to an officer of the addressee or to the Participant, as the case may be.

10.7 Facility of Payment

In the event that the Participant entitled to receive payments hereunder is unable to care for his affairs because of illness, accident or disability, and a duly qualified guardian or legal representative is appointed for such Participant, the Plan Administrator shall direct the Trustees to pay any amount to which the Participant is entitled to such duly. qualified guardian or legal representative upon claim of such guardian or legal representative. If a duly qualified guardian or legal representative is not appointed for such Participant, the Plan Administrator shall direct the Trustees to pay any amount to which the Participant is entitled to such person's Spouse, child, grandchild, parent, brother or sister or to a person deemed by the Plan Administrator to have incurred expense for such person entitled to payment. Any payment made pursuant to this Section 12.7 in good faith shall be a payment for the account of the Participant and shall be a complete discharge from any liability of the Trust Fund or

the Trustees therefor.

10.8 Service in More Than One Fiduciary Capacity

Any individual, entity or group of persons may serve in more than one fiduciary capacity with respect to the Plan, the Trust Fund or both.

10.9 Binding Effect of Company's Actions

Each Employer shall be bound by any all decisions and actions taken by the Company hereunder.

10.10 Governing Law

Except to the extent inconsistent with and preempted by ERISA or other applicable Federal law, the Plan and all matters arising thereunder shall be governed by the laws of the State of Maryland.

IN WITNESS WHEREOF, and as evidence of the adoption of the Plan, the undersigned officer has authorized the Plan.

EG&G TECHNICAL SERVICES, INC.

By: H. Thomas Hicks

APPENDIX A

ADJUSTMENTS FOR PARTICIPANTS DESCRIBED IN SECTION 4.1(c)

SSN	Name	Monthly Accrued Benefit Under the Mound Plans	Offset Attributable to Mound Plan Service	Net Adjustment to Plan Accrued Benefit
	Cynthia L. Lee	\$1,458.57	\$857.03	\$601.54

SUBSIDIARIES OF URS CORPORATION

Name of Domestic Subsidiary and Consolidated Joint Ventures	State of Incorporation
ADVATECH, LLC.	Delaware
AMAN ENVIRONMENTAL CONSTRUCTION, INC.	California
BANSHEE CONSTRUCTION COMPANY, INC.	California
CASH & ASSOCIATES	California
CLAY STREET PROPERTIES	California
CLEVELAND WRECKING COMPANY	California
D&M CONSULTING ENGINEERS, INC.	Delaware
DAMES & MOORE GROUP (NY), INC.	New York
E.C. DRIVER & ASSOCIATES, INC.	Florida
EC III, LLC	Delaware
EG&G DEFENSE MATERIALS, INC.	Utah
EG&G TECHNICAL SERVICES, INC.	Delaware
ENERGY & ENVIRONMENTAL SOLUTIONS, LLC	Delaware
GEOTESTING SERVICES, INC.	California
JT3, LLC	Delaware
LEAR SIEGLER LOGISTICS INTERNATIONAL, INC.	Delaware
LEAR SIEGLER SERVICES, INC.	Delaware
RADIAN ENGINEERING, INC.	New York
RADIAN INTERNATIONAL LLC	Delaware
SIGNET TESTING LABORATORIES, INC.	Delaware
URS ARCHITECTS/ENGINEERS, INC.	New Jersey
URS ARCHITECTURE – OREGON, INC.	Oregon
URS ARCHITECTURE & ENGINEERING – NEW YORK, P.C.	New York
URS CARIBE, L.L.P	Delaware/Puerto Rico
URS CARIBE – VIRGIN ISLANDS	US Virgin Islands
URS CONSTRUCTION SERVICES, INC.	Florida
URS CORPORATION	Nevada
URS CORPORATION AES	Connecticut
URS CORPORATION – MARYLAND	Maryland
URS CORPORATION – NEW YORK	New York
URS CORPORATION – NEW YORK, PUERTO RICO	Puerto Rico
URS CORPORATION – NORTH CAROLINA	North Carolina
URS CORPORATION – OHIO	Ohio
URS CORPORATION – OHIO, VIRGIN ISLANDS	US Virgin Islands
URS CORPORATION ARCHITECTURE, P.C.	North Carolina
URS CORPORATION DESIGN	Ohio
URS CORPORATION GREAT LAKES	Michigan
URS CORPORATION SERVICES	Pennsylvania
URS CORPORATION SOUTHERN	California
URS DISTRICT SERVICES, P.C.	District of Columbia
URS GREINER WOODWARD–CLYDE CONSULTANTS, INC.	New York
URS GROUP, INC.	Delaware
URS HOLDINGS, INC.	Delaware
URS INTERNATIONAL, INC.	Delaware
URS OPERATING SERVICES, INC.	Delaware
URS RESOURCES, LLC	Delaware
URS STEVENSON ARCHITECTURE, P.C.	Mississippi

Name of Foreign Subsidiary	Jurisdiction of Incorporation
AACM INT'L PTY LTD.	Australia
AGC WOODWARD–CLYDE PTY. LTD.	Australia
BUSINESS RISK STRATEGIES PTY. LTD.	Australia
DAMES & MOORE BOLIVIA S.A.	Bolivia
DAMES & MOORE DE MEXICO S de R.L. de C.V.	Mexico
DAMES & MOORE INTERNATIONAL SRL JAPAN/VENEZUELA	Japan/Venezuela
DAMES & MOORE PTY. LTD.	Australia
DAMES & MOORE SERVICIOS DE MEXICO, S de R.L. de C.V.	Mexico
DAMES & MOORE LTD.	United Kingdom
FORTECH FINANCE PTY LTD.	Australia
GREINER WOODWARD CLYDE DAMES & MOORE (MALAYSIA) SDN. BHD.	Malaysia
HOISTING SYSTEMS PTY. LTD.	Australia
HOLLINGSWORTH DAMES & MOORE PTY. LTD.	Australia
MURRAY NORTH INTERNATIONAL LTD.	New Zealand
O'BRIEN KREITZBERG ASIA PACIFIC, LTD.	Hong Kong
O'BRIEN–KREITZBERG & ASSOCIATES LTD.	United Kingdom
PROFESSIONAL INSURANCE LIMITED	Bermuda
PT GEOBIS WOODWARD–CLYDE INDONESIA	Indonesia
PT URS INDONESIA	Indonesia
RADIAN INTERNATIONAL PTY, LTD.	Australia
RADIAN INTERNATIONAL S.E.A. LIMITED	Thailand
SAUDI ARABIAN DAMES & MOORE	Saudi Arabia
TC CONSULTORES LTDA.	Portugal
TECNOLOGIAS Y SERVICIOS AMBIENTALES TESAM S.A.	Chile
THORBURN COLQUHOUN HOLDINGS LIMITED	United Kingdom
UNITED RESEARCH SERVICES ESPANA, S.L.	Spain
URS ARCHITECTS & ENGINEERS CANADA, INC.	Canada
URS CORPORATION S.A.	Argentina
URS ASIA PACIFIC PTY. LTD.	Australia
URS AUSTRALIA PTY. LTD.	Australia
URS BELGIUM BVBA	Belgium
URS CANADA, INC.	Ontario
URS CHILE S.A.	Chile
URS CONSULTING MALAYSIA SDN. BHD	Malaysia
URS CONSULTING (INDIA) PVT. LTD.	India
URS CONSULTING (SHANGHAI) LTD.	China
URS CONSULTING (SINGAPORE) PTE. LTD.	Singapore
URS CORPORATION LTD.	United Kingdom
URS QATAR LLC.	Qatar
URS DEUTSCHLAND GMBH	Germany
URS EUROPE LIMITED	United Kingdom
URS EG&G DEFENCE SERVICES (UEDS) PTY LTD.	Australia
URS FLIGHT TRAINING SERVICES LTD.	United Kingdom
URS FORESTRY PTY. LTD.	Australia

Name of Foreign Subsidiary (Continued)	Jurisdiction of Incorporation
URS FRANCE SAS	France
URS GREINER (MALAYSIA) SDN. BHD.	Malaysia
URS GREINER WOODWARD–CLYDE (MALAYSIA) SDN BHD	Malaysia
URS HOLDINGS, INC. – PANAMA	Panama
URS HOLDINGS, INC. – SHANGHAI	China
URS HONG KONG LIMITED	Hong Kong
URS INTERNATIONAL INC. – GERMANY	Germany
URS IRELAND LIMITED	Ireland
URS ITALIA S.p.A.	Italy
URS NETHERLANDS B.V.	Netherlands
URS NEW ZEALAND LTD.	New Zealand
URS NORDIC AB	Sweden
URS (PNG) LTD.	Papua New Guinea
URS PHILIPPINES, INC.	Philippines
URS STRATEGIC ISSUES MANAGEMENT PTY. LTD.	Australia
URS (THAILAND) LIMITED	Thailand
URS VERIFICATION LTD.	United Kingdom
WALK, HAYDEL ARABIA LTD.	Saudi Arabia
WOODWARD–CLYDE GEO–CONSULTING SDN BHD	Malaysia
WOODWARD–CLYDE LIMITED	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-61230, 333-24063, 333-24067, 333-24069, 333-48791, 333-48793, 333-91053, 333-110467, 333-138531 of URS Corporation of our report dated February 26, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 26, 2007

POWERS OF ATTORNEY OF URS CORPORATION'S DIRECTORS AND OFFICERS

Each person whose signature appears below hereby constitutes and appoints any one of H. THOMAS HICKS and REED N. BRIMHALL, each with full power to act without the other, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for fiscal year ended December 29, 2006 of URS Corporation, and any or all amendments thereto, and to file the same with all the exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in connection therewith, as fully to all extents and purposes as he or she might or could do in person, thereby ratifying and confirming all that such attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

This Power of Attorney may be executed in separate counterparts.

Dated: February 27, 2007

<u>/s/ H. Jesse Arnelle</u>	<u>/s/ Joseph W. Ralston</u>
H. Jesse Arnelle	Joseph W. Ralston
Director	Director

<u>/s/ Betsy J. Bernard</u>	<u>/s/ John D. Roach</u>
Betsy J. Bernard	John D. Roach
Director	Director

<u>/s/ Armen Der Marderosian</u>	<u>/s/ William P. Sullivan</u>
Armen Der Marderosian	William P. Sullivan
Director	Director

<u>/s/ Mickey P. Foret</u>	<u>/s/ William D. Walsh</u>
Mickey P. Foret	William D. Walsh
Director	Director

<u>/s/ Martin M. Koffel</u>
Martin M. Koffel
Director

CHIEF EXECUTIVE OFFICER CERTIFICATE

I, Martin M. Koffel, certify that:

1. I have reviewed this annual report on Form 10-K of URS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2007

By: /s/ Martin M. Koffel

Martin M. Koffel
Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATE

I, H. Thomas Hicks, certify that:

1. I have reviewed this annual report on Form 10-K of URS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2007

By: /s/ H. Thomas Hicks

H. Thomas Hicks
Chief Financial Officer

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION

Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, Martin M. Koffel, the Chief Executive Officer of URS Corporation (the “Company”), and H. Thomas Hicks, the Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10–K for the period ended December 29, 2006, to which this Certification is attached as Exhibit 32 (the “Periodic Report”), fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2007

By: /s/ Martin M. Koffel

Martin M. Koffel
Chief Executive Officer

Date: February 27, 2007

By: /s/ H. Thomas Hicks

H. Thomas Hicks
Chief Financial Officer

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