

TETRA TECH INC  
Form 10-Q  
May 03, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-19655

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**TETRA TECH, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4148514**  
(I.R.S. Employer  
Identification Number)

**3475 East Foothill Boulevard, Pasadena, California 91107**

(Address of principal executive offices) (Zip Code)

**(626) 351-4664**

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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

Yes  No

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As of April 29, 2013, 64,927,984 shares of the registrant's common stock were outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Tetra Tech, Inc.****Condensed Consolidated Balance Sheets****(unaudited - in thousands, except par value)**

ASSETS	March 31, 2013	September 30, 2012
Current assets:		
Cash and cash equivalents	\$ 159,575	\$ 104,848
Accounts receivable net	687,120	700,480
Prepaid expenses and other current assets	53,167	48,168
Income taxes receivable	21,294	5,817
Total current assets	921,156	859,313
Property and equipment net	93,192	74,309
Investments in and advances to unconsolidated joint ventures	3,586	3,279
Goodwill	777,739	635,958
Intangible assets net	106,859	74,231
Other assets	25,402	23,940
Total assets	\$ 1,927,934	\$ 1,671,030
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 148,136	\$ 154,003
Accrued compensation	97,881	128,086
Billings in excess of costs on uncompleted contracts	79,131	90,909
Deferred income taxes	19,550	20,809
Current portion of long-term debt	1,730	2,031
Estimated contingent earn-out liabilities	29,699	35,407
Other current liabilities	69,884	72,549
Total current liabilities	446,011	503,794
Deferred income taxes	38,631	24,268
Long-term debt	264,047	81,047
Long-term estimated contingent earn-out liabilities	71,803	16,132
Other long-term liabilities	29,749	25,922
Commitments and contingencies		
Equity:		

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Preferred stock Authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at March 31, 2013, and September 30, 2012

Common stock Authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 64,925 and 63,837 shares at March 31, 2013, and September 30, 2012, respectively

Additional paid-in capital	649	638
Accumulated other comprehensive income	457,428	433,009
Retained earnings	13,377	31,017
Tetra Tech stockholders' equity	605,349	554,306
Noncontrolling interests	1,076,803	1,018,970
Total equity	890	897
	1,077,693	1,019,867
Total liabilities and equity	\$ 1,927,934	\$ 1,671,030

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**Tetra Tech, Inc.****Condensed Consolidated Statements of Income****(unaudited in thousands, except per share data)**

	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
Revenue	\$ 641,999	\$ 624,345	\$ 1,300,544	\$ 1,306,972
Subcontractor costs	(121,052)	(147,453)	(282,399)	(338,024)
Other costs of revenue	(435,827)	(388,915)	(844,822)	(796,251)
Selling, general and administrative expenses	(47,453)	(52,434)	(93,847)	(101,062)
Operating income	37,667	35,543	79,476	71,635
Interest expense - net	(2,136)	(1,453)	(3,320)	(2,763)
Income before income tax expense	35,531	34,090	76,156	68,872
Income tax expense	(10,659)	(11,769)	(24,888)	(23,848)
Net income including noncontrolling interests	24,872	22,321	51,268	45,024
Net income attributable to noncontrolling interests	(52)	(37)	(225)	(130)
Net income attributable to Tetra Tech	\$ 24,820	\$ 22,284	\$ 51,043	\$ 44,894
Earnings per share attributable to Tetra Tech:				
Basic	\$ 0.38	\$ 0.35	\$ 0.79	\$ 0.71
Diluted	\$ 0.38	\$ 0.35	\$ 0.78	\$ 0.71
Weighted-average common shares outstanding:				
Basic	64,551	63,072	64,376	62,846
Diluted	65,472	63,817	65,208	63,497

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**Tetra Tech, Inc.****Condensed Consolidated Statements of Comprehensive Income****(unaudited in thousands)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>	<b>April 1,</b>	<b>March 31,</b>	<b>April 1,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income including noncontrolling interests	\$ 24,872	\$ 22,321	\$ 51,268	\$ 45,024
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of tax	(12,154)	9,357	(17,767)	20,185
Foreign currency hedge, net of tax	(28)	(12)	93	(214)
Other comprehensive (loss) income	(12,182)	9,345	(17,674)	19,971
Comprehensive income including noncontrolling interests	12,690	31,666	33,594	64,995
Net income attributable to noncontrolling interests	(52)	(37)	(225)	(130)
Foreign currency translation adjustments, net of tax	20	(14)	33	(14)
Comprehensive income attributable to noncontrolling interests	(32)	(51)	(192)	(144)
Comprehensive income attributable to Tetra Tech	\$ 12,658	\$ 31,615	\$ 33,402	\$ 64,851

See accompanying Notes to Condensed Consolidated Financial Statements.



Table of Contents**Tetra Tech, Inc.****Condensed Consolidated Statements of Cash Flows****(unaudited in thousands)**

	Six Months Ended	
	March 31, 2013	April 1, 2012
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 51,268	\$ 45,024
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	29,322	29,071
Loss on settlement of foreign currency forward contract	270	286
Equity in income of unconsolidated joint ventures	(1,929)	(1,553)
Distributions of earnings from unconsolidated joint ventures	1,549	1,595
Stock-based compensation	4,840	5,648
Excess tax benefits from stock-based compensation	(866)	(147)
Deferred income taxes	4,880	(2,533)
Provision for doubtful accounts	2,164	3,721
Fair value adjustments to contingent consideration	(946)	(214)
Gain on disposal of property and equipment	(237)	(69)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	75,183	11,038
Prepaid expenses and other assets	(4,139)	11,234
Accounts payable	(31,180)	(23,392)
Accrued compensation	(33,220)	(13,777)
Billings in excess of costs on uncompleted contracts	(15,732)	(1,156)
Other liabilities	(6,208)	10,791
Income taxes receivable/payable	(13,001)	(4,178)
Net cash provided by operating activities	62,018	71,389
Cash flows from investing activities:		
Capital expenditures	(13,634)	(7,983)
Payments for business acquisitions, net of cash acquired	(168,092)	(2,831)
Payment in settlement of foreign currency forward contract	(4,177)	(4,192)
Receipt in settlement of foreign currency forward contract	3,907	3,906
Changes in restricted cash	470	
Proceeds from sale of property and equipment	962	497
Net cash used in investing activities	(180,564)	(10,603)
Cash flows from financing activities:		
Payments on long-term debt	(113,978)	(51,837)
Proceeds from borrowings	296,389	13,025
Payments of earn-out liabilities	(24,015)	(18,055)
Excess tax benefits from stock-based compensation	866	147
Net proceeds from issuance of common stock	14,561	8,882
Net cash provided by (used in) financing activities	173,823	(47,838)
Effect of foreign exchange rate changes on cash	(550)	2,585

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Net increase in cash and cash equivalents	54,727		15,533
Cash and cash equivalents at beginning of period	104,848		90,494
Cash and cash equivalents at end of period	\$ 159,575	\$	106,027
Supplemental information:			
Cash paid during the period for:			
Interest	\$ 2,494	\$	2,839
Income taxes, net of refunds received	\$ 31,531	\$	30,974

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**TETRA TECH, INC.****Notes to Condensed Consolidated Financial Statements****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements and related notes of Tetra Tech, Inc. ( we, us or our ) have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

These financial statements reflect all normal recurring adjustments that are considered necessary for a fair statement of our financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year or for future years.

These financial statements include the accounts of our wholly-owned subsidiaries and those joint ventures of which we are the primary beneficiary. For the joint ventures in which we do not have a controlling interest, but exert a significant influence, we apply the equity method of accounting (see Note 11, Joint Ventures for further discussion). In the first quarter of fiscal 2013, we implemented a reorganization of our operations to improve future growth and profitability. These activities included the consolidation and realignment of certain operating activities to improve organizational effectiveness and achieve efficiencies in our segment management. This reorganization included the elimination of the Engineering and Architecture Services ( EAS ) segment, and the re-assignment of its operations to the Engineering and Consulting Services ( ECS ) and Technical Support Services ( TSS ) segments (see Note 9, Reportable Segments for further discussion). Prior-year amounts for reportable segments have been reclassified to conform to the current-year presentation. For both fiscal 2013 and 2012, Interest expense net on the condensed consolidated statements of income includes \$0.2 million and \$0.4 million in interest income for the three and six-month periods, respectively.

**2. Accounts Receivable Net**

Net accounts receivable and billings in excess of costs on uncompleted contracts consisted of the following:

	March 31, 2013	September 30, 2012
	(in thousands)	
Billed	\$ 351,897	\$ 362,331
Unbilled	343,416	355,793
Contract retentions	28,012	17,908

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Total accounts receivable gross		723,325		736,032
Allowance for doubtful accounts		(36,205)		(35,552)
Total accounts receivable net	\$	687,120	\$	700,480
Current billings in excess of costs on uncompleted contracts	\$	79,131	\$	90,909
Non-current billings in excess of costs on uncompleted contracts		1,474		4,410
Total billings in excess of costs on uncompleted contracts	\$	80,605	\$	95,319

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at March 31, 2013 are expected to be billed and collected within 12 months. Unbilled accounts receivable at March 31, 2013 and September 30, 2012 include approximately \$36 million and \$21 million, respectively, related to claims and requests for equitable adjustment on contracts that provide for price redetermination, primarily with U.S. federal government agencies. These amounts are management's estimate of the most probable amount to be realized upon the conclusion of the claims settlement process. We regularly evaluate these claim amounts and record appropriate adjustments to operating earnings when

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collectability is deemed to have changed. No losses were recognized related to the collectability of claims during the second quarter and first half of fiscal 2013 and 2012. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts is determined based on a review of client-specific accounts, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months. The non-current billings in excess of costs on uncompleted contracts are reported as part of our Other long-term liabilities on our condensed consolidated balance sheets.

Billed accounts receivable related to U.S. federal government contracts were \$66.4 million and \$65.9 million at March 31, 2013 and September 30, 2012, respectively. U.S. federal government unbilled receivables, net of progress payments, were \$83.4 million and \$100.4 million at March 31, 2013 and September 30, 2012, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at March 31, 2013 and September 30, 2012.

**3. Mergers and Acquisitions**

On December 31, 2012, the first day of our fiscal 2013 second quarter, we acquired American Environmental Group, Ltd. ( AEG ), a solid waste management specialist headquartered in Richfield, Ohio. AEG provides environmental, design, construction and maintenance services primarily to solid and hazardous waste, environmental, energy and utility clients. On January 28, 2013, we acquired Parkland Pipeline Contractors Ltd., Parkland Pipeline Equipment Ltd., Park L Projects Ltd. and Parkland Projects Ltd. (collectively, Parkland ), headquartered in Alberta, Canada. Parkland serves the oil and gas industry in Western Canada, and specializes in the technical support, engineering support and construction of pipelines and oilfield facilities. AEG and Parkland are both included in our RCM segment. We also made other acquisitions that enhanced our service offerings and expanded our geographic presence in our ECS segment during the first half of fiscal 2013. The aggregate fair value of the purchase prices for fiscal 2013 acquisitions was \$249.0 million. Of this amount, \$169.7 million was paid to the sellers, \$4.0 million was accrued in accordance with the purchase agreements, and \$75.3 million was the estimated fair value of contingent earn-out obligations, with an aggregate maximum of \$86.7 million, based upon the achievement of specified financial objectives as described below.

In fiscal 2012, we made acquisitions that enhanced our service offerings and expanded our geographic presence in our ECS and TSS segments. The aggregate fair value of the purchase prices for these acquisitions was \$63.2 million. Of this amount, \$42.2 million was paid to the sellers, \$2.0 million was accrued in accordance with the purchase agreements, and \$19.0 million was the estimated fair value of contingent earn-out obligations, with an aggregate maximum of \$20.0 million, based upon the achievement of specified financial objectives as described below.

Goodwill additions resulting from business combinations were primarily attributable to the intangible value of a successful business with an assembled workforce specialized in our areas of interest. The results of our acquisitions were included in the condensed consolidated financial statements from their respective closing dates. The purchase price allocations related to the fiscal 2013 acquisitions are preliminary, and subject to adjustment based on the valuation and final determination of net assets acquired. We do not believe that any adjustment will have a material effect on our consolidated results of operations. No acquisitions in the first half of fiscal 2013 and in fiscal 2012 were considered material, individually or in the aggregate, to our condensed consolidated financial statements. As a result, no pro forma information has been provided for the respective periods.

Most of our acquisition agreements include contingent earn-out agreements, which are generally based on the achievement of future operating income thresholds. The contingent earn-out arrangements are based upon our valuations of the acquired companies and reduce the risk of overpaying for acquisitions if the projected financial results are not achieved. For acquisitions completed prior to fiscal 2010, contingent

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earn-out payments are accrued as Contingent earn-out liabilities when the related operating thresholds have been achieved, and a corresponding increase in goodwill is recorded. These contingent earn-out payments are reflected as cash flows used in investing activities on our condensed consolidated statements of cash flows in the period paid. At March 31, 2013, there was a maximum of \$3.0 million of contingent consideration remaining for an acquisition completed prior to fiscal 2010 that will be recorded as an addition to goodwill, if earned.

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For acquisitions completed during or subsequent to fiscal 2010, the fair values of any earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. For each transaction, we estimate the fair value of contingent earn-out payments as part of the initial purchase price and record the estimated fair value of contingent consideration as a liability in Estimated contingent earn-out liabilities and Long-term estimated contingent earn-out liabilities on the condensed consolidated balance sheets. We consider several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our acquisitions is not supported solely by the initial consideration paid, and the contingent earn-out formula is a critical and material component of the valuation approach to determining the purchase price; and (2) the former owners of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012). We use a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period (generally two or three years), and the probability outcome percentages we assign to each scenario. Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our condensed consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

At March 31, 2013, there was a total maximum of \$118.4 million of outstanding contingent consideration related to acquisitions completed during or subsequent to fiscal 2010. Of this amount, \$101.5 million was estimated as the fair value and accrued on our condensed consolidated balance sheet. The aggregate current estimated earn-out liabilities of \$29.7 million and \$35.4 million are reported in Estimated contingent earn-out liabilities, and the aggregate non-current estimated earn-out liabilities of \$71.8 million and \$16.1 million are reported in Long-term estimated contingent earn-out liabilities on our condensed consolidated balance sheets at March 31, 2013 and September 30, 2012, respectively. In the first six months of fiscal 2013, \$24.4 million of earn-outs were paid to former owners. Of this amount, we reported \$24.0 million as cash used in financing activities and \$0.4 million as cash used in operating activities. In the first six months of fiscal 2012, \$20.5 million of earn-outs were paid to former owners. Of this amount, we reported \$18.1 million as cash used in financing activities, \$0.6 million as cash used in operating activities and \$1.8 million as cash used in investing activities.

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The following table summarizes the changes in the carrying value of goodwill:

	ECS	TSS	RCM	Total
	(in thousands)			
Balance at September 30, 2012(1) (2)	\$ 412,308	\$ 173,867	\$ 49,783	\$ 635,958
Goodwill additions	12,231		141,127	153,358
Currency translation adjustments(3)	(9,624)		(1,875)	(11,499)
Goodwill adjustments		(78)		(78)
Balance at March 31, 2013	\$ 414,915	\$ 173,789	\$ 189,035	\$ 777,739

(1) Prior-year amounts for ECS and TSS have been reclassified to conform to the current-year presentation (see Note 9, Reportable Segments for more information). As a result, the ECS revised amount reflects \$9.2 million transferred in from EAS and \$7.6 million transferred out to TSS. The TSS revised amount reflects \$7.5 million transferred in from EAS and \$7.6 million transferred in from ECS.

(2) We recorded impairment charges of \$105.0 million in fiscal 2005 and \$0.9 million in fiscal 2012 in our former EAS segment.

(3) Currency translation adjustments relate to our foreign subsidiaries with functional currencies that are different than our reporting currency.

The gross amount and accumulated amortization of our acquired identifiable intangible assets with finite useful lives included in Intangible assets - net on the condensed consolidated balance sheets were as follows:

	Weighted-Average Remaining Life (in Years)	March 31, 2013		September 30, 2012	
		Gross Amount	Accumulated Amortization (\$ in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	2.9	\$ 6,331	\$ (5,079)	\$ 5,467	\$ (4,685)
Client relations	4.9	131,582	(39,886)	99,096	(31,477)
Backlog	0.8	71,098	(59,802)	59,931	(55,908)
Technology and trade names	3.2	4,237	(1,622)	3,034	(1,227)
Total		\$ 213,248	\$ (106,389)	\$ 167,528	\$ (93,297)

Goodwill and intangible assets increased due to acquisitions completed during the first half of fiscal 2013, partially offset by foreign currency translation adjustments. Amortization expense for these intangible assets for the three and six months ended March 31, 2013 were \$9.1 million and \$14.7 million, respectively, compared to \$6.9 million and \$15.2 million for the prior-year periods. Estimated amortization expense for the remainder of fiscal 2013 and succeeding years is as follows:



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**Amount**  
**(in thousands)**

2013	\$	18,622
2014		27,025
2015		19,591
2016		16,353
2017		13,853
Beyond		11,415
Total	\$	106,859

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Property and equipment consisted of the following:

	<b>March 31, 2013</b>	<b>September 30, 2012</b>
	<b>(in thousands)</b>	
Land and buildings	\$ 5,567	\$ 5,537
Equipment, furniture and fixtures	206,483	177,710
Leasehold improvements	27,279	26,180
Total property and equipment	239,329	209,427
Accumulated depreciation	(146,137)	(135,118)
Property and equipment, net	\$ 93,192	\$ 74,309

For the three and six months ended March 31, 2013, the depreciation expense related to property and equipment, including assets under capital leases, was \$7.5 million and \$14.3 million, respectively, compared to \$6.8 million and \$13.6 million for the prior-year periods.

**6. Stockholders Equity and Stock Compensation Plans**

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the three and six months ended March 31, 2013 was \$2.3 million and \$4.8 million, respectively, compared to \$2.7 million and \$5.6 million for the same periods last year. The majority of these amounts was included in Selling, general and administrative ( SG&A ) expenses in our condensed consolidated statements of income. In the three months ended March 31, 2013, no stock options were granted. For the six months ended March 31, 2013, we granted 279,075 stock options with an exercise price of \$24.26 per share and an estimated weighted-average fair value of \$8.74 per share. In addition, we awarded 108,350 shares of restricted stock to our non-employee directors and executive officers at the fair value of \$24.26 per share on the award date. All of these shares are performance-based and vest over a three-year period. The number of shares that will ultimately vest is based on the growth in our diluted earnings per share. In the three months ended March 31, 2013, we awarded 2,600 restricted stock units ( RSUs ) to our non-employee directors, executive officers and employees at the fair value of \$29.28 per share. For the six months ended March 31, 2013, 226,655 RSUs were awarded at the fair value of \$24.26 - \$29.28 per share. All of the RSUs have time-based vesting over a four-year period.

**7. Earnings Per Share ( EPS )**

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding, less unvested restricted stock for the period. Diluted EPS is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive potential common shares for the period. Potential common shares include the weighted-average dilutive effects of outstanding stock options and unvested restricted stock using the treasury stock method.



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

	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
(in thousands, except per share data)				
Net income attributable to Tetra Tech	\$ 24,820	\$ 22,284	\$ 51,043	\$ 44,894
Weighted-average common shares outstanding basic	64,551	63,072	64,376	62,846
Effect of dilutive stock options and unvested restricted stock	921	745	832	651
Weighted-average common stock outstanding diluted	65,472	63,817	65,208	63,497
Earnings per share attributable to Tetra Tech:				
Basic	\$ 0.38	\$ 0.35	\$ 0.79	\$ 0.71
Diluted	\$ 0.38	\$ 0.35	\$ 0.78	\$ 0.71

For the three and six months ended March 31, 2013, 0.4 million and 0.6 million options were excluded from the calculation of dilutive potential common shares, respectively, compared to 2.4 million and 3.0 million options for the same periods last year. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for that period. Therefore, their inclusion would have been anti-dilutive.

## 8. Income Taxes

The effective tax rates for the first half of fiscal 2013 and 2012 were 32.7% and 34.6%, respectively. At March 31, 2013, undistributed earnings of our foreign subsidiaries, primarily in Canada, amounting to approximately \$39.9 million, are expected to be permanently reinvested. Accordingly, no provision for U.S. income taxes or foreign withholding taxes has been made. Upon distribution of those earnings, we would be subject to U.S. income taxes and foreign withholding taxes.

During the second quarter of fiscal 2013, the American Taxpayer Relief Act of 2012 was signed into law. This law retroactively extended the federal research and experimentation credits ( R&E credits ) for amounts incurred from January 1, 2012 through December 31, 2013. As a result of the retroactive extension, our effective tax rate for the second quarter of fiscal 2013 included a tax benefit of \$1.1 million from the R&E credits attributable to the last nine months of fiscal 2012 and the first quarter of fiscal 2013.

## 9. Reportable Segments

In the first quarter of fiscal 2013, we implemented a reorganization of our operations to improve future growth and profitability. These activities included the consolidation and realignment of certain operating activities to improve organizational effectiveness and achieve efficiencies in our segment management. This reorganization included the elimination of the EAS segment. Operating activities previously reported in this segment were realigned to operations with similar client types, project types and financial metrics in the ECS and TSS segments. Segment

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results for the prior year have been revised to conform to the current-year presentation. Our reportable segments are as follows:

*ECS*: Provides front-end science, consulting engineering and project management services in the areas of surface water management, water infrastructure, solid waste management, mining, geotechnical sciences, arctic engineering, industrial processes and oil sands, transportation, and information technology.

*TSS*: Provides management consulting and engineering services and strategic direction in the areas of environmental assessments/hazardous waste management, climate change, international development, international reconstruction and stabilization, energy, oil and gas, technical government consulting, and buildings and facilities.

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*RCM*: Provides full-service support, including construction and construction management, to all of our client sectors including the U.S. federal government in the U.S. and internationally, and commercial clients worldwide in the areas of environmental remediation, infrastructure development, energy, and oil and gas.

Management evaluates the performance of these reportable segments based upon their respective segment operating income before the effect of amortization expense related to acquisitions and other unallocated corporate expenses. We account for inter-segment sales and transfers as if the sales and transfers were to third parties; that is, by applying a negotiated fee onto the costs of the services performed. All significant intercompany balances and transactions are eliminated in consolidation.

The following tables set forth summarized financial information regarding our reportable segments:

	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
(in thousands)				
<b>Revenue</b>				
ECS	\$ 259,194	\$ 279,895	\$ 537,361	\$ 559,055
TSS	222,108	249,338	466,032	504,462
RCM	178,499	117,412	336,930	278,217
Elimination of inter-segment revenue	(17,802)	(22,300)	(39,779)	(34,762)
Total revenue	\$ 641,999	\$ 624,345	\$ 1,300,544	\$ 1,306,972
<b>Operating Income</b>				
ECS	\$ 11,203	\$ 21,095	\$ 30,493	\$ 42,952
TSS	22,262	19,403	44,605	36,944
RCM	14,094	3,999	21,176	9,889
Corporate (1)	(9,892)	(8,954)	(16,798)	(18,150)
Total operating income	\$ 37,667	\$ 35,543	\$ 79,476	\$ 71,635
<b>Depreciation</b>				
ECS	\$ 2,587	\$ 2,713	\$ 5,213	\$ 5,551
TSS	693	910	1,475	1,683
RCM	3,433	2,438	6,035	4,873
Corporate	809	733	1,607	1,473
Total depreciation	\$ 7,522	\$ 6,794	\$ 14,330	\$ 13,580

(1) Includes amortization of intangibles, other costs and other income not allocable to segments. Amortization expense for the first half of fiscal 2013 and 2012 was \$14.7 million and \$15.2 million, respectively.

	March 31, 2013	September 30, 2012
(in thousands)		
<b>Total Assets</b>		
ECS	\$ 931,281	\$ 915,571
TSS	655,088	638,405
RCM	449,064	311,051

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Assets not allocated to segments and intercompany eliminations (1)		(107,499)		(193,997)
Total assets	\$	1,927,934	\$	1,671,030

(1) Assets not allocated to segments include goodwill, intangible assets, deferred income taxes and certain other assets.

Other than the U.S. federal government, no single client accounted for more than 10% of our revenue. All of our segments generated revenue from all client sectors.

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The following table presents our revenue by client sector:

	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
	(in thousands)			
<b>Client Sector</b>				
International (1)	\$ 196,840	\$ 154,781	\$ 364,342	\$ 314,713
U.S. commercial	148,296	142,438	321,442	319,868
U.S. federal government (2)	206,297	252,709	433,694	524,116
U.S. state and local government	90,566	74,417	181,066	148,275
Total	\$ 641,999	\$ 624,345	\$ 1,300,544	\$ 1,306,972

## 10. Fair Value Measurements

*Derivative Instruments.* In fiscal 2009, we entered into an intercompany promissory note with a wholly-owned Canadian subsidiary in connection with the acquisition of Wardrop Engineering, Inc. The intercompany note receivable is denominated in Canadian dollars ( CAD ) and has a fixed rate of interest payable in CAD. In the second quarter of fiscal 2010, we entered into a forward contract for CAD \$4.2 million (equivalent to U.S. \$3.9 million at the date of inception) that matured on January 28, 2013. In the third quarter of fiscal 2011, we entered into a forward contract for CAD \$4.2 million (equivalent to U.S. \$4.2 million at the date of inception) with a maturity date of January 27, 2014. Our objective was to eliminate variability of our cash flows on the amount of interest income we receive on the promissory note from changes in foreign currency exchange rates. These contracts were designated as cash flow hedges. Accordingly, changes in the fair value of the contracts were recorded in Other comprehensive income . In the second quarter of fiscal 2013, we settled one of the foreign currency forward contracts for U.S. \$3.9 million and terminated the remaining forward contract. As a result, we recognized an immaterial gain in our condensed consolidated statements of income for the period.

*Debt.* The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012). The carrying value of our long-term debt approximates fair value at March 31, 2013 and September 30, 2012. For the first six months of fiscal 2013, we had a net borrowing of \$182.4 million under our credit agreement to fund our business acquisitions, working capital needs and contingent earn-outs.

## 11. Joint Ventures

### *Consolidated Joint Ventures*



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The aggregate revenue of our consolidated joint ventures for the three and six months ended March 31, 2013 was \$3.0 million and \$7.0 million, respectively, compared to \$4.5 million and \$9.0 million for the same periods last year. The assets and liabilities of these consolidated joint ventures were immaterial at March 31, 2013 and September 30, 2012. These assets are restricted for use only by those joint ventures and are not available for our general operations. Cash and cash equivalents maintained by our consolidated joint ventures at March 31, 2013 and September 30, 2012 were \$1.5 million and \$1.6 million, respectively.

### *Unconsolidated Joint Ventures*

We account for the majority of our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures within Other costs of revenue in our condensed consolidated statements of income. For the three and six months ended March 31, 2013, we reported \$1.3 million and \$1.9 million of equity in earnings of unconsolidated joint ventures, respectively, compared to \$0.6 million and \$1.6 million for the same periods last year. Our maximum exposure to loss as a result of our investments in unconsolidated joint ventures is typically limited to the aggregate of the carrying value of the investment. Future funding commitments for our unconsolidated joint ventures are immaterial. The unconsolidated joint ventures are, individually and in the aggregate, immaterial to our consolidated financial statements.

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The aggregate carrying values of the assets and liabilities of the unconsolidated joint ventures were \$20.4 million and \$16.9 million, respectively, at March 31, 2013, and \$19.0 million and \$15.7 million, respectively, at September 30, 2012.

**12. Commitments and Contingencies**

We are subject to certain claims and lawsuits typically filed against the engineering, consulting and construction profession, alleging primarily professional errors or omissions. We carry professional liability insurance, subject to certain deductibles and policy limits, against such claims. However, in some actions, parties are seeking damages that exceed our insurance coverage or for which we are not insured. While management does not believe that the resolution of these claims will have a material adverse effect, individually or in aggregate, on our financial position, results of operations or cash flows, management acknowledges the uncertainty surrounding the ultimate resolution of these matters.

We acquired, BPR Inc. ( BPR ), a Quebec-based engineering firm on October 4, 2010. Subsequently, we have been informed of the following with respect to pre-acquisition activities at BPR:

On April 17, 2012, authorities in the province of Quebec, Canada charged two employees of BPR Triax, a subsidiary of BPR, and BPR Triax, under the Canadian Criminal Code with allegations of corruption. Discovery procedures associated with the charges are currently ongoing, and the legal process is expected to continue into fiscal 2014. We have conducted an internal investigation concerning this matter and, based on the results of our investigation, we believe these allegations are limited to activities at BPR Triax prior to our acquisition of BPR.

During late March 2013, the president of BPR gave testimony to the Charbonneau Commission, which is investigating possible corruption in the engineering industry in Quebec. He stated that during 2007 and 2008, he and other former BPR shareholders paid personal funds to a political party official in exchange for the award of five government contracts. Further, prior to the testimony, we were not aware of the misconduct. We have accepted the resignation of BPR's former president, and are evaluating the impact of these pre-acquisition actions on our business and results of operations.

During March 2013, following the resignation of BPR's former president, we learned that criminal charges had been filed against BPR and its former president in France. The charges relate to allegations that, in 2009, a BPR subsidiary had hired an employee of another firm to be CEO of that BPR subsidiary as a part of a corrupt scheme which allegedly damaged, among others, the employee's former employer. A trial in this matter is scheduled for October 2013.

On April 19, 2013, a class action proceeding was filed in Montreal in which BPR, BPR's former president, and other Quebec-based engineering firms and individuals are named as defendants. The plaintiff class includes all individuals and entities that have paid real estate or municipal taxes to the city of Montreal. The allegations include participation in collusion to share contracts awarded by the City of Montreal, conspiracy to reduce competition and fix prices, payment of bribes to officials, making illegal political contributions, and bid rigging.

The financial impact to us of the matters discussed above is unknown at this time.

**13. Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued new guidance on the presentation of comprehensive income. The new guidance allows us to present components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. Additionally, in December 2011, the FASB issued new guidance to defer the effective date pertaining to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. During the deferral period, the existing requirements in the original guidance for the presentation of reclassification adjustments must be followed. This new guidance was effective for us in the first quarter of fiscal 2013 on a retrospective basis. Upon the adoption of this guidance, we are presenting the components of net income and the components of other comprehensive income in two separate but consecutive statements.

In September 2011, the FASB issued updated accounting guidance to simplify how we test goodwill for impairment. The amendment permits us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. We will not be required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that its fair value is less than its carrying amount. The updated guidance is effective for us in July 2013, if elected, when we perform our annual goodwill impairment test. The adoption of this guidance will not have a material impact on our condensed consolidated financial statements.

In December 2011, the FASB issued new guidance to enhance disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. We are required to provide both net and gross information for these assets and liabilities in order to facilitate comparability between financial statements prepared on the basis of U.S. GAAP and financial statements prepared on the basis of International Financial Reporting Standards. This updated guidance will be effective for us in the first quarter of fiscal 2014 on a retrospective basis. We are currently evaluating the impact on our condensed consolidated financial statements.

In February 2013, the FASB issued an update to the reporting of reclassifications out of accumulated other comprehensive income. The updated guidance requires us to disclose additional information about changes in and significant items reclassified out of accumulated other comprehensive income. The updated guidance is effective for us in the first quarter of fiscal 2014. We do not expect the adoption of this guidance to have an impact on our condensed consolidated financial statements.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbor provisions created under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under Part II, Item 1A. Risk Factors and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

**GENERAL OVERVIEW**

We are a leading provider of consulting, engineering, program management, construction management, construction and technical services that focuses on addressing fundamental needs for water, the environment, energy, infrastructure and natural resources. We are a full-service company that leads with science. We typically begin at the earliest stage of a project by identifying technical solutions to problems and developing execution plans tailored to our clients' needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects and include applied science, research and technology, engineering, design, construction management, construction, operations and maintenance, and information technology. Our commitment to continuous improvement and investment in growth has diversified our client base, expanded our geographic reach, and increased the breadth and depth of our service offerings to address existing and emerging markets. We currently have more than 14,000 staff worldwide, located primarily in North America.

We derive income from fees for professional, technical, program management, construction and construction management services. As primarily a service-based company, we are labor-intensive rather than capital-intensive. Our revenue is driven by our ability to attract and retain qualified and productive employees, identify business opportunities, secure new and renew existing client contracts, provide outstanding services to our clients and execute projects successfully. We provide our services to a diverse base of international and U.S. commercial clients, as well as U.S. federal and U.S. state and local government agencies. The following table presents the percentage of our revenue by client sector:

	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
<b>Client Sector</b>				
International (1)	30.7%	24.8%	28.0%	24.1%

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U.S. commercial	23.1	22.8	24.7	24.5
U.S. federal government (2)	32.1	40.5	33.4	40.1
U.S. state and local government	14.1	11.9	13.9	11.3
Total	100.0%	100.0%	100.0%	100.0%



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In the first quarter of fiscal 2013, we implemented a reorganization of our operations to improve future growth and profitability, including the consolidation and realignment of certain operating activities to achieve efficiencies in our segment management. This reorganization included the elimination of the EAS reportable segment, and the re-assignment of its operations to the ECS and TSS segments. Prior year amounts have been reclassified to conform to the current-year presentation. We manage our business under the following three reportable segments:

*Engineering and Consulting Services.* ECS provides front-end science, consulting engineering and project management services in the areas of surface water management, water infrastructure, solid waste management, mining, geotechnical sciences, arctic engineering, industrial processes and oil sands, transportation, and information technology.

*Technical Support Services.* TSS provides management consulting and engineering services and strategic direction in the areas of environmental assessments/hazardous waste management, climate change, international development, international reconstruction and stabilization, energy, oil and gas, technical government consulting, and buildings and facilities.

*Remediation and Construction Management.* RCM provides full-service support, including construction and construction management, to all of our client sectors including the U.S. federal government in the U.S. and internationally, and commercial clients worldwide, in the areas of environmental remediation, infrastructure development, solid waste management, energy, and oil and gas.

The following table presents the percentage of our revenue by reportable segment:

Reportable Segment	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
ECS	40.4%	44.8%	41.3%	42.8%
TSS	34.6	39.9	35.8	38.6
RCM	27.8	18.8	25.9	21.3
Inter-segment elimination	(2.8)	(3.5)	(3.0)	(2.7)
	100.0%	100.0%	100.0%	100.0%

We provide services under three principal types of contracts: fixed-price, time-and-materials and cost-plus. The following table presents the percentage of our revenue by contract type:

Contract Type	Three Months Ended		Six Months Ended	
	March 31, 2013	April 1, 2012	March 31, 2013	April 1, 2012
Fixed-price	41.6%	36.2%	40.7%	39.5%
Time-and-materials	41.0	42.5	41.0	40.4
Cost-plus	17.4	21.3	18.3	20.1

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100.0%

100.0%

100.0%

100.0%

Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur. Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Under cost-plus contracts, some of which are subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. Profitability on our contracts is driven by billable headcount and our ability to manage our subcontractors, vendors and material suppliers. A majority of our contract revenue and contract costs are recorded using the percentage-of-completion (cost-to-cost) method. Under this method, revenue is recognized in the ratio of contract costs incurred compared to total estimated contract costs. Revenue and profit on these contracts are subject to revision throughout the duration of the contracts and any required adjustments are made in the period in which the revisions become known. Losses on contracts are recorded in full as they are identified.

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Other contract costs include professional compensation and related benefits, together with certain direct and indirect overhead costs such as rents, utilities and travel. Professional compensation represents a large portion of these costs. Our SG&A expenses are comprised primarily of marketing and bid and proposal costs, and our corporate headquarters costs related to the executive offices, finance, accounting, administration and information technology. Our SG&A expenses also include a portion of stock-based compensation and depreciation of property and equipment related to our corporate headquarters, and the amortization of identifiable intangible assets. Most of these costs are unrelated to specific clients or projects and can vary as expenses are incurred to support company-wide activities and initiatives.

We experience seasonal trends in our business. Our revenue and operating income are typically lower in the first half of our fiscal year, primarily due to the Thanksgiving, Christmas and New Year's holidays. Many of our clients' employees, as well as our own employees, take vacations during these holiday periods. Further, seasonal inclement weather conditions occasionally cause some of our offices to close temporarily or may hamper our project field work, particularly in the ECS segment. These occurrences result in fewer billable hours worked on projects and, correspondingly, less revenue recognized. Our revenue is typically higher in the second half of the fiscal year due to favorable weather conditions during spring and summer months that may result in higher billable hours. In addition, our revenue is typically higher in the fourth fiscal quarter due to the U.S. federal government's fiscal year-end spending.

## ACQUISITIONS AND DIVESTITURES

*Acquisitions.* We continuously evaluate the marketplace for strategic acquisition opportunities. Due to our reputation, size, financial resources, geographic presence and range of services, we have numerous opportunities to acquire privately and publicly held companies or selected portions of such companies. During our evaluation, we examine the effect an acquisition may have on our long-range business strategy and results of operations. Generally, we proceed with an acquisition if we believe that it would have a positive effect on future operations and could strategically expand our service offerings. As successful integration and implementation are essential to achieving favorable results, no assurance can be given that all acquisitions will provide accretive results. Our strategy is to position ourselves to address existing and emerging markets. We view acquisitions as a key component of our growth strategy, and we intend to use cash, debt or securities, as we deem appropriate, to fund acquisitions. We may acquire other businesses that we believe are synergistic and will ultimately increase our revenue and net income, strengthen our ability to achieve our strategic goals, provide critical mass with existing clients and further expand our lines of service. We typically pay a purchase price that results in the recognition of goodwill, generally representing the intangible value of a successful business with an assembled workforce specialized in our areas of interest.

On December 31, 2012, the first day of our fiscal 2013 second quarter, we acquired AEG, a solid waste management specialist headquartered in Richfield, Ohio. AEG provides environmental, design, construction and maintenance services primarily to solid and hazardous waste, environmental, energy and utility clients. On January 28, 2013, we acquired Parkland, headquartered in Alberta, Canada. Parkland serves the oil and gas industry in Western Canada, and specializes in the technical support, engineering support and construction of pipelines and oilfield facilities. AEG and Parkland are both included in our RCM segment. We also made other acquisitions that enhanced our service offerings and expanded our geographic presence in our ECS segment in the first half of fiscal 2013, and in our ECS and TSS segments in fiscal 2012 (see Note 3, Mergers and Acquisitions for further discussion).

*Divestitures.* To complement our acquisition strategy and our focus on internal growth, we regularly review and evaluate our existing operations to determine whether our business model should change through the divestiture of certain businesses. Accordingly, from time to time, we may divest certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction. We did not have any divestitures in the first six months of fiscal 2013 and 2012.



**OVERVIEW OF RESULTS AND BUSINESS TRENDS**

*General.* In the second quarter of fiscal 2013, our revenue increased and our earnings improved compared to the year-ago quarter despite challenges in certain markets in which we operate. Our overall revenue in the second quarter was fairly stable due to increased U.S. and international commercial revenue, including the impact of recent acquisitions, and our expanded work for oil and gas clients. Conversely, we experienced an expected decline in revenue from U.S. federal government programs as uncertainty regarding the U.S. federal budget continued to delay project funding in the current fiscal year. This change in our business mix resulted in improved operating margins and profitability.

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*Impact of Recent Business Environment.* Current economic conditions have been somewhat volatile and there is increased ambiguity as to whether the U.S. or the global economy will grow modestly or remain stagnant. First, the uncertainty regarding the U.S. federal budget and the impact of tax increases has added to the doubt regarding economic conditions generally. Those conditions could be negatively impacted by mandatory federal budget reductions, or sequestrations, that became effective in our fiscal second quarter. In addition, concerns over these conditions appear to be restraining business owners from making the significant investment commitments needed to fund future growth. In Eastern Canada, poor economic conditions, including budget deficits, reduced customer spending and an on-going government investigation into political corruption in Quebec have slowed procurements and business activity in that region. As a result, we anticipate weaker financial performance in our Eastern Canadian operations during the second half of fiscal 2013, primarily in the ECS segment. Less significantly, our work for mining customers continued to slow in the second quarter of fiscal 2013, and we anticipate weaker mining performance during the remainder of this fiscal year. With this overall uncertainty, it is difficult to confidently predict the future direction in which the U.S. and global economies are headed. In addition, persistent negative operating and financial results could result in a goodwill impairment. Strong economic expansion generally benefits our business while a tepid financial recovery could adversely impact demand for our services. It is not possible to predict with certainty whether or when a recovery may occur, or what impact this would have on our business, results of operations, cash flows or financial condition.

*International.* For the first half of fiscal 2013, our international business grew 15.8% compared to the year-ago period. The growth was broad-based but particularly driven by our continued expansion of services to the oil and gas industry, primarily as a result of acquisitions. We expect that our international business will continue its growth during fiscal 2013 as a result of our continued expansion in Canada and South America, and demand for our services from our largest industrial clients worldwide. However, this growth is expected to be tempered by anticipated reductions in Eastern Canada and in our mining activities.

*U.S. Commercial.* Our U.S. commercial business remained flat in the first half of fiscal 2013 compared to the year-ago period. We did experience growth in many of our services offerings including increased activity for oil and gas clients, which generates relatively high profit margins. In addition, our solid waste management operations increased, primarily due to an acquisition in fiscal 2013. The increased activity was largely offset by delays in infrastructure capital spending of several U.S. commercial clients in reaction to economic uncertainty. As a result of this change in revenue mix, we have improved operating income despite the relative stability of overall revenue. Although we expect some economic weakness may continue in certain sectors of our U.S. commercial business, we are cautiously optimistic regarding increased spending by our energy-focused clients, particularly in oil and gas. As such, we expect that our U.S. commercial business will grow in fiscal 2013. Our U.S. commercial clients typically react rapidly to economic change. Accordingly, if the U.S. economy experiences a slowdown or pickup in fiscal 2013, we would expect our U.S. commercial outlook to change accordingly.

*U.S. Federal Government.* For the first half of fiscal 2013, our U.S. federal business declined 17.3% compared to the year-ago period. This decline resulted from a broad-based slowdown of U.S. federal government programs, including reduced construction activities and certain discretionary programs. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. However, due to the U.S. federal budget uncertainties and the sequester as described above, we remain cautious.

*U.S. State and Local Government.* For the first half of fiscal 2013, our U.S. state and local government business increased 22.1% compared to the year-ago period. The growth was driven by increased revenue from essential programs and certain large transportation projects. Many state and local government agencies continue to face economic challenges, including budget deficits and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our U.S. state and local government programs are partially mitigated by legal requirements that drive some of these programs, such as regulatory-mandated consent decrees. As a result, some programs will progress despite budget pressures as demonstrated by the growth in fiscal 2012 and the first half of fiscal 2013. Although we anticipate that many state and local government agencies will continue to face economic challenges, we expect our U.S. state and local government business to continue its growth in fiscal 2013 compared to fiscal 2012 because of our focus on essential programs.



Table of Contents**RESULTS OF OPERATIONS***Consolidated Results of Operations*

	March 31,		Three Months Ended		Change		March 31,		Six Months Ended		Change			
	2013		April 1,				2013		April 1,					
					\$	%					\$	%		
	(\$ in thousands)													
Revenue	\$	641,999	\$	624,345	\$	17,654	2.8%	\$	1,300,544	\$	1,306,972	\$	(6,428)	(0.5)%
Subcontractor costs		(121,052)		(147,453)		26,401	17.9		(282,399)		(338,024)		55,625	16.5
Revenue, net of subcontractor costs(1)		520,947		476,892		44,055	9.2		1,018,145		968,948		49,197	5.1
Other costs of revenue		(435,827)		(388,915)		(46,912)	(12.1)		(844,822)		(796,251)		(48,571)	(6.1)
Selling, general and administrative expenses		(47,453)		(52,434)		4,981	9.5		(93,847)		(101,062)		7,215	7.1
Operating income		37,667		35,543		2,124	6.0		79,476		71,635		7,841	10.9
Interest expense - net		(2,136)		(1,453)		(683)	(47.0)		(3,320)		(2,763)		(557)	(20.2)
Income before income tax expense		35,531		34,090		1,441	4.2		76,156		68,872		7,284	10.6
Income tax expense		(10,659)		(11,769)		1,110	9.4		(24,888)		(23,848)		(1,040)	(4.4)
Net income including noncontrolling interests		24,872		22,321		2,551	11.4		51,268		45,024		6,244	13.9
Net income attributable to noncontrolling interests		(52)		(37)		(15)	(40.5)		(225)		(130)		(95)	(73.1)
Net income attributable to Tetra Tech	\$	24,820	\$	22,284	\$	2,536	11.4	\$	51,043	\$	44,894	\$	6,149	13.7

- (1) We believe that the presentation of Revenue, net of subcontractor costs, a non-GAAP financial measure, enhances investors' ability to analyze our business trends and performance because it substantially measures the work performed by our employees. In the course of providing services, we routinely subcontract various services and, under certain U.S. Agency for International Development (USAID) programs, issue grants. Generally, these subcontractor costs and grants are passed through to our clients and, in accordance with GAAP and industry practice, are included in our revenue when it is our contractual responsibility to procure or manage these activities. The grants are included as part of our subcontractor costs. Because subcontractor services can vary significantly from project to project and period to period, changes in revenue may not necessarily be indicative of our business trends. Accordingly, we segregate subcontractor costs from revenue to promote a better understanding of our business by evaluating revenue exclusive of costs associated with external service providers.

In the second quarter of fiscal 2013, revenue and revenue, net of subcontractor costs, increased \$17.7 million, or 2.8%, and \$44.1 million, or 9.2%, respectively, compared to the second quarter of last year. In the first half of fiscal 2013, revenue, net of subcontractor costs, increased \$49.2 million, or 5.1%, compared to the same period last year. These improved results reflect net increases in U.S. and international commercial activity, including our expanded work for oil and gas clients. Combined revenue and revenue, net of subcontractor costs, from these activities increased \$54.7 million and \$55.8 million, respectively, in the second quarter of fiscal 2013 versus the year-ago quarter. Our revenue, net of

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subcontractor costs, grew at a faster pace than total revenue due to increased self-performance on commercial and international projects, and the slowdown of federal government programs on which services were largely performed by our subcontractors. For the first half of fiscal 2013, combined U.S. commercial and international revenue and revenue, net of subcontractor costs, increased \$51.2 million and \$62.7 million, respectively, compared to the same period last year. Acquisitions completed in fiscal 2012 and 2013 contributed an additional \$76.3 million of revenue to the second quarter of fiscal 2013 and an additional \$84.1 million of revenue to the first half of fiscal 2013.

The growth in our U.S. commercial and international business was partially offset by lower activity in our mining business and by a broad-based slowdown of U.S. federal government programs. On a combined basis, revenue and revenue, net of subcontractor costs, from these activities decreased \$56.4 million and \$26.4 million, respectively, in the second quarter of fiscal 2013, and decreased \$100.3 million and \$43.8 million, respectively, in the first six months of fiscal 2013, compared with the same periods last year. We expect the negative trend in our mining-related activities and U.S. federal business to continue to adversely affect our results in the second half of fiscal 2013. Increased activity on U.S. state and local government projects partially offset these declines. Our revenue and revenue, net of subcontractor costs, from U.S. state and local government projects increased \$16.1 million and \$14.7 million, respectively, in the second quarter of fiscal 2013, and increased \$32.8 million and \$27.7 million, respectively, in the first half of fiscal 2013, compared to the same periods last year. This growth was driven by increased revenue from essential programs and certain large transportation projects.

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Operating income increased \$2.1 million, or 6.0%, and \$7.8 million, or 10.9%, in the second quarter and first half of fiscal 2013, respectively, compared to the same periods of fiscal 2012. These increases resulted from the change in our revenue mix as higher-margin commercial projects replaced U.S. federal government work both in our U.S. and international operations. These projects include oil and gas work associated with acquisitions completed in fiscal 2012 and fiscal 2013. We have also achieved efficiencies and lowered overhead costs in our operations. These positive operating trends in the second quarter were partially offset by higher amortization of intangibles of \$2.1 million compared with the second quarter of fiscal 2013. Intangible amortization for the first six months of fiscal 2013 was relatively unchanged compared with the same period last year.

Income tax expense in the second quarter of fiscal 2013 was relatively unchanged from the second quarter of fiscal 2012 despite the increased operating income. As a result, our effective tax rate declined to 30.0% in the second quarter of fiscal 2013 compared with 34.5% in the same period last fiscal year. The lower effective tax rate primarily resulted from the retroactive extension of R&E credits. There was a \$1.1 million benefit from R&E credits related to fiscal 2012 that was recorded in the second quarter of fiscal 2013, which lowered our related effective tax rate by 3.1%. The remaining decline in our effective tax rate for this quarter was primarily a result of continued foreign expansion and favorable tax planning strategies. For the first six months of fiscal 2013 our effective tax rate was 32.7% compared with 34.6% in the first half of fiscal 2012. This decline was entirely due to the lower rate in the second quarter of fiscal 2013.

*Segment Results of Operations**Engineering and Consulting Services*

	March 31, 2013	Three Months Ended April 1, 2012	Change \$	%	March 31, 2013	Six Months Ended April 1, 2012	Change \$	%
	(\$ in thousands)							
Revenue	\$ 259,194	\$ 279,895	\$ (20,701)	(7.4)%	\$ 537,361	\$ 559,055	\$ (21,694)	(3.9)%
Subcontractor costs	(33,151)	(38,539)	5,388	14.0	(70,592)	(83,150)	12,558	15.1
Revenue, net of subcontractor costs(1)	\$ 226,043	\$ 241,356	\$ (15,313)	(6.3)	\$ 466,769	\$ 475,905	\$ (9,136)	(1.9)
Operating income	\$ 11,203	\$ 21,095	\$ (9,892)	(46.9)	\$ 30,493	\$ 42,952	\$ (12,459)	(29.0)

(1) Represents a non-GAAP financial measure. For more information, see the Consolidated Results of Operations discussion above.

Revenue declined \$20.7 million and \$21.7 million, respectively, in the second quarter and first half of fiscal 2013 compared with the same periods of fiscal 2012. We experienced corresponding declines in revenue, net of subcontractor costs, of \$15.3 million in the second quarter and \$9.1 million in the first six months of fiscal 2013. These results reflected the decline in our Canadian operations that are focused on municipal government and mining activities, as well as in our U.S. operations that are focused on federal government and mining-related activities. The decrease in operating income was primarily attributable to these trends as our other ECS operations were relatively stable versus the fiscal 2012 periods on an overall basis.

*Technical Support Services*

	March 31, 2013	Three Months Ended April 1, 2012	Change \$	% (\$ in thousands)	March 31, 2013	Six Months Ended April 1, 2012	Change \$	%
Revenue	\$ 222,108	\$ 249,338	\$ (27,230)	(10.9)%	\$ 466,032	\$ 504,462	\$ (38,430)	(7.6)%
Subcontractor costs	(55,806)	(78,768)	22,962	29.2	(132,170)	(165,061)	32,891	19.9
Revenue, net of subcontractor costs(1)	\$ 166,302	\$ 170,570	\$ (4,268)	(2.5)	\$ 333,862	\$ 339,401	\$ (5,539)	(1.6)
Operating income	\$ 22,262	\$ 19,403	\$ 2,859	14.7	\$ 44,605	\$ 36,944	\$ 7,661	20.7

(1) Represents a non-GAAP financial measure. For more information, see the Consolidated Results of Operations discussion above.

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Revenue and revenue, net of subcontractor costs, declined \$27.2 million and \$4.3 million, respectively, in the second quarter of fiscal 2013 compared with the second quarter of last year. For the first six months of fiscal 2013, revenue and revenue, net of subcontractor costs, declined \$38.4 million and \$5.5 million, respectively, compared with the same period of fiscal 2012. These declines were primarily driven by lower revenue from U.S. federal government programs across several agencies. Revenue and revenue, net of subcontractor costs, from these programs decreased by \$32.9 million and \$12.4 million, respectively, for the second quarter of fiscal 2013, and \$59.8 million and \$21.0 million, respectively, on a year-to-date basis compared to the same periods last year. These declines in U.S. federal activity were partially offset by the growth in our work for oil and gas clients. We generated \$8.8 million and \$16.6 million of revenue in the second quarter and first half of fiscal 2013, respectively, from a company acquired in the third quarter of fiscal 2012 that performs oil and gas services. Despite the overall decrease in revenue, our operating income increased \$2.9 million in the second quarter and \$7.7 million in the first half of fiscal 2013 compared with the same periods of fiscal 2012. This improvement resulted from better project performance; higher-margin work for our oil and gas clients, of which about half was derived from the acquisition referenced above; and the reduction of overhead costs.

*Remediation and Construction Management*

	March 31, 2013	Three Months Ended April 1, 2012	Change \$	%	March 31, 2013	Six Months Ended April 1, 2012	Change \$	%
	(\$ in thousands)							
Revenue	\$ 178,499	\$ 117,412	\$ 61,087	52.0%	\$ 336,930	\$ 278,217	\$ 58,713	21.1%
Subcontractor costs	(49,897)	(52,446)	2,549	4.9	(119,416)	(124,575)	5,159	4.1
Revenue, net of subcontractor costs(1)	\$ 128,602	\$ 64,966	\$ 63,636	98.0	\$ 217,514	\$ 153,642	\$ 63,872	41.6
Operating income	\$ 14,094	\$ 3,999	\$ 10,095	252.4	\$ 21,176	\$ 9,889	\$ 11,287	114.1