TETRA TECH INC
Form 10-Q
August 09, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from ___________ to ___________

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4148514**
(State or other jurisdiction of incorporation or organization)	(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)

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

Yes x No o

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

Yes x No o

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

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

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

Yes o No x

As of August 5, 2013, 64,496,480 shares of the registrant s common stock were outstanding.

Table of Contents

TETRA TECH, INC.

INDEX

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	June 30, 2013	September 30, 2012
Current assets:		
Cash and cash equivalents	$ 146,335	$ 104,848
Accounts receivable net	632,220	700,480
Prepaid expenses and other current assets	46,433	48,168
Income taxes receivable	25,635	5,817
Total current assets	850,623	859,313
Property and equipment net	87,376	74,309
Investments in and advances to unconsolidated joint ventures	2,733	3,279
Goodwill	710,321	635,958
Intangible assets net	94,754	74,231
Other long-term assets	25,705	23,940
Total assets	$ 1,771,512	$ 1,671,030
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 133,092	$ 154,003
Accrued compensation	118,737	128,086
Billings in excess of costs on uncompleted contracts	85,352	90,909
Deferred income taxes	9,642	20,809
Current portion of long-term debt	4,043	2,031
Estimated contingent earn-out liabilities	24,178	35,407
Other current liabilities	87,177	72,549
Total current liabilities	462,221	503,794
Deferred income taxes	26,738	24,268
Long-term debt	208,396	81,047
Long-term estimated contingent earn-out liabilities	68,140	16,132
Other long-term liabilities	29,061	25,922
Commitments and contingencies		
Equity:		

Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding at June 30, 2013, and September 30, 2012				
Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 64,799 and 63,837 shares at June 30, 2013, and September 30, 2012, respectively		648		638
Additional paid-in capital		457,480		433,009
Accumulated other comprehensive (loss) income		(9,021)		31,017
Retained earnings		526,964		554,306
Tetra Tech stockholders equity		976,071		1,018,970
Noncontrolling interests		885		897
Total equity		976,956		1,019,867
Total liabilities and equity	$	1,771,512	$	1,671,030

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

Tetra Tech, Inc.

Condensed Consolidated Statements of Operations

(unaudited in thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended July 1, 2012	Nine Months Ended June 30, 2013	Nine Months Ended July 1, 2012
Revenue	$ 614,835	$ 684,698	$ 1,915,379	$ 1,991,670
Subcontractor costs	(139,693)	(167,832)	(422,092)	(505,855)
Other costs of revenue	(469,398)	(419,140)	(1,314,219)	(1,215,391)
Selling, general and administrative expenses	(56,744)	(53,210)	(151,539)	(154,487)
Contingent consideration fair value adjustments	7,716	1,745	8,662	1,959
Impairment of goodwill	(56,600)		(56,600)	
Operating (loss) income	(99,884)	46,261	(20,409)	117,896
Interest expense - net	(2,010)	(1,419)	(5,330)	(4,182)
(Loss) income before income tax expense	(101,894)	44,842	(25,739)	113,714
Income tax benefit (expense)	23,779	(15,674)	(1,108)	(39,522)
Net (loss) income including noncontrolling interests	(78,115)	29,168	(26,847)	74,192
Net income attributable to noncontrolling interests	(270)	(114)	(495)	(244)
Net (loss) income attributable to Tetra Tech	$ (78,385)	$ 29,054	$ (27,342)	$ 73,948
Net (loss) income attributable to Tetra Tech per share:				
Basic	$ (1.21)	$ 0.46	$ (0.42)	$ 1.17
Diluted	$ (1.21)	$ 0.45	$ (0.42)	$ 1.16
Weighted-average common shares outstanding:				
Basic	64,832	63,387	64,554	63,054
Diluted	64,832	64,179	64,554	63,752

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

Tetra Tech, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited in thousands)

	Three Months Ended June 30, 2013	Three Months Ended July 1, 2012	Nine Months Ended June 30, 2013	Nine Months Ended July 1, 2012
Net (loss) income including noncontrolling interests	$ (78,115)	$ 29,168	$ (26,847)	$ 74,192
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of tax	(22,430)	(7,199)	(40,197)	12,986
Foreign currency hedge, net of tax		170	93	(44)
Other comprehensive (loss) income	(22,430)	(7,029)	(40,104)	12,942
Comprehensive (loss) income including noncontrolling interests	(100,545)	22,139	(66,951)	87,134
Net income attributable to noncontrolling interests	(270)	(114)	(495)	(244)
Foreign currency translation adjustments, net of tax	33	11	66	(3)
Comprehensive income attributable to noncontrolling interests	(237)	(103)	(429)	(247)
Comprehensive (loss) income attributable to Tetra Tech	$ (100,782)	$ 22,036	$ (67,380)	$ 86,887

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

	Nine Months Ended	
	June 30, 2013	**July 1, 2012**
Cash flows from operating activities:		
Net (loss) income including noncontrolling interests	$ (26,847)	$ 74,192
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and amortization	47,148	42,203
Loss on settlement of foreign currency forward contract	270	286
Equity in income of unconsolidated joint ventures	(2,495)	(2,369)
Distributions of earnings from unconsolidated joint ventures	2,868	2,812
Stock-based compensation	7,628	8,193
Excess tax benefits from stock-based compensation	(875)	(283)
Deferred income taxes	(27,005)	(3,896)
Provision for doubtful accounts	12,125	2,115
Fair value adjustments to contingent consideration	(8,662)	(1,959)
Gain on disposal of property and equipment	(142)	(157)
Lease termination costs and related asset impairment	6,463	
Impairment of goodwill	56,600	
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	117,687	(34,037)
Prepaid expenses and other assets	7,435	27,561
Accounts payable	(43,911)	(2,584)
Accrued compensation	(12,458)	9,974
Billings in excess of costs on uncompleted contracts	(10,986)	6,032
Other liabilities	5,569	3,333
Income taxes receivable/payable	(15,144)	(3,215)
Net cash provided by operating activities	115,268	128,201
Cash flows from investing activities:		
Capital expenditures	(20,533)	(14,906)
Payments for business acquisitions, net of cash acquired	(168,660)	(52,226)
Payment in settlement of foreign currency forward contract	(4,177)	(4,192)
Receipt in settlement of foreign currency forward contract	3,907	3,906
Investments in unconsolidated joint ventures		(586)
Changes in restricted cash	470	
Proceeds from sale of property and equipment	1,763	701
Net cash used in investing activities	(187,230)	(67,303)
Cash flows from financing activities:		
Payments on long-term debt	(167,185)	(60,222)
Proceeds from borrowings	296,389	52,849
Payments of debt issuance costs	(1,938)	
Payments of earn-out liabilities	(24,015)	(18,055)
Excess tax benefits from stock-based compensation	875	283

Repurchases of common stock		(4,147)		
Net proceeds from issuance of common stock		15,697		12,885
Net cash provided by (used in) financing activities		115,676		(12,260)
Effect of foreign exchange rate changes on cash		(2,227)		1,533
Net increase in cash and cash equivalents		41,487		50,171
Cash and cash equivalents at beginning of period		104,848		90,494
Cash and cash equivalents at end of period	$	146,335	$	140,665
Supplemental information:				
Cash paid during the period for:				
Interest	$	3,801	$	4,143
Income taxes, net of refunds received	$	34,913	$	45,670

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 12, 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 10, Reportable Segments for further discussion). Prior-year amounts for reportable segments have been reclassified to conform to the current-year presentation. For the three and nine months ended June 30, 2013, Interest expense net on the condensed consolidated statements of operations includes $0.4 million and $0.8 million in interest income compared to $0.2 million and $0.6 million for the same periods last year, respectively.

2. Stock Repurchase Program

In June 2013, our Board of Directors authorized a stock repurchase program (the Stock Repurchase Program) under which we may repurchase up to $100 million of Tetra Tech common stock. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties. Because the repurchases under the Stock Repurchase Program are subject to certain pricing parameters, there is no guarantee as to the exact number of shares that will be repurchased under the program. At June 30, 2013, we had repurchased through open market purchases a total of 175,700 shares at an average price of $23.60 per share, for a total cost of $4.1 million.

Table of Contents

3. Accounts Receivable Net

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

	June 30, 2013	September 30, 2012
	(in thousands)	
Billed	$ 353,299	$ 362,331
Unbilled	295,411	355,793
Contract retentions	27,892	17,908
Total accounts receivable gross	676,602	736,032
Allowance for doubtful accounts	(44,382)	(35,552)
Total accounts receivable net	$ 632,220	$ 700,480
Current billings in excess of costs on uncompleted contracts	$ 85,352	$ 90,909
Non-current billings in excess of costs on uncompleted contracts		4,410
Total billings in excess of costs on uncompleted contracts	$ 85,352	$ 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 June 30, 2013 are expected to be billed and collected within 12 months. 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. 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.

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 result in change orders and may be initiated by us or by our clients. In many cases, agreement with the client as to the terms of change orders is reached prior to work commencing; however, sometimes circumstances require that work progresses without obtaining client agreement. Unapproved change orders constitute claims in excess of agreed contract prices that we seek to collect from our clients (or other third parties) for delays, errors in specifications and designs, contract terminations, or other causes of unanticipated additional costs. Revenue on claims is recognized when contract costs related to claims have been incurred and when their addition to contract value can be reliably estimated. This can lead to a situation in which costs are recognized in one period and revenue is recognized in a subsequent period such as when client agreement is obtained or a claims resolution occurs.

Unbilled accounts receivable at June 30, 2013 and September 30, 2012 include approximately $37 million and $21 million, respectively, related to claims, including requests for equitable adjustment on contracts that provide for price redetermination, primarily with U.S. federal government agencies. We regularly evaluate these claim amounts and record appropriate adjustments to operating earnings when it is probable that the claim will result in a different contract value than the amount previously reliably estimated. We recognized losses of approximately $17 million related to the evaluation of collectability of claims during the third quarter and first nine months of fiscal 2013. The losses were primarily related to contractual disputes with government clients. No losses related to claims were recognized in fiscal 2012.

Billed accounts receivable related to U.S. federal government contracts were $71.8 million and $65.9 million at June 30, 2013 and September 30, 2012, respectively. U.S. federal government unbilled receivables, net of progress payments, were $67.2 million and $100.4 million at June 30, 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 June 30, 2013 and September 30, 2012.

Table of Contents

4. Mergers and Acquisitions

On December 31, 2012, 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 $244.4 million. Of this amount, $170.3 million was paid to the sellers, $1.1 million was recorded as a receivable 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.

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 nine months 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 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 June 30, 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.

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.

9

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. During the third quarter and first nine months of fiscal 2013, we recorded net decreases in our contingent earn-out liabilities and reported related net gains in operating income of $7.7 million and $8.7 million, respectively, compared with gains of $1.7 million and $2.0 million, respectively, in the same periods last year. In each case, subsequent to the acquisition date, we determined that the related acquired companies would achieve operating income at a lower level than what was assumed at the acquisition date.

At June 30, 2013, there was a total maximum of $115.5 million of outstanding contingent consideration related to acquisitions completed during or subsequent to fiscal 2010. Of this amount, $91.0 million was estimated as the fair value and accrued on our condensed consolidated balance sheet. The aggregate current estimated earn-out liabilities of $24.2 million and $35.4 million are reported in Estimated contingent earn-out liabilities , and the aggregate non-current estimated earn-out liabilities of $68.1 million and $16.1 million are reported in Long-term estimated contingent earn-out liabilities on our condensed consolidated balance sheets at June 30, 2013 and September 30, 2012, respectively. In the first nine 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 nine months of fiscal 2012, $30.4 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 $11.7 million as cash used in investing activities.

5. Goodwill and Intangibles

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business acquisition. 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. We test our goodwill for impairment on an annual basis, and more frequently when an event occurs or circumstances indicate the carrying value of the asset may not be recoverable. We believe the methodology that we use to review impairment of goodwill, which includes a significant amount of judgment and estimates, provides us with a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether our goodwill is impaired are outside of our control and it is reasonably likely that assumptions and estimates will change in future periods. These changes could result in future impairments.

We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our last annual review at July 2, 2012 (i.e., the first day of our fiscal fourth quarter), indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill. In addition, we regularly evaluate whether events and circumstances have occurred that may indicate a potential change in recoverability of goodwill. We perform interim goodwill impairment reviews between our annual reviews if certain events and circumstances have occurred, including a deterioration in general economic conditions, an increased competitive environment, a change in management, key personnel, strategy or customers, negative or declining cash flows, or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods. We assess goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component. Our operating segments are the same as our reportable segments and our reporting units for goodwill impairment testing are the components one level below our reportable segments. These components constitute a business for which discrete financial information is available and where segment management regularly reviews the operating results of that component. We aggregate components within an operating segment that have similar economic characteristics.

Table of Contents

The impairment test for goodwill is a two-step process involving the comparison of the estimated fair value of each reporting unit to the reporting unit s carrying value, including goodwill. We estimate the fair value of reporting units based on a comparison and weighting of the income approach, specifically the discounted cash flow method and the market approach, which estimates the fair value our reporting units based upon comparable market prices and recent transactions and also validates the reasonableness of the multiples from the income approach. If the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired; therefore, the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, we perform the second step of the goodwill impairment test to measure the amount of impairment loss to be recorded. If our goodwill is impaired, we are required to record a non-cash charge that could have a material adverse effect on our consolidated financial statements.

During the third quarter of fiscal 2013, certain of our reporting units experienced declines in their actual and projected financial performance. In Eastern Canada, poor economic conditions, including budget deficits, reduced customer spending, and an on-going government investigation into political corruption in Quebec slowed procurements and business activity in that region. In addition, our work for mining customers continued to slow at a faster pace than previously anticipated due to reduced demand and significant declines in prices for certain metals. To a lesser extent, we also experienced reduced performance from reporting units with a concentration of work for certain agencies of the U.S. federal government as a result of customer budgetary constraints. During the third quarter of fiscal 2013, we performed an interim goodwill impairment test for three reporting units in our ECS segment, as follows:

- Tetra Tech Canada (TTC), with operations primarily in Eastern Canada, particularly Quebec;

- Global Mining Practice (GMP), with operations primarily in the U.S., Canada, Australia and South America; and

- Advanced Management Technology, Inc. (AMT), a U.S. federal government contractor primarily doing business with the Federal Aviation Administration.

We performed the first step of the impairment test for each of these reporting units during the third quarter of fiscal 2013, and in each case determined that the carrying value of the reporting unit exceeded its fair value indicating potential goodwill impairment. The significant change to the assumptions used in the interim test in the third quarter of fiscal 2013 compared to the last annual impairment test as of July 2, 2012 was the projected revenue, operating income and cash flows for each reporting unit tested.

We performed the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, of the applicable reporting units. The second step of the test requires the allocation of the reporting unit s fair value to its assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill is less than the carrying value, the difference is recorded as an impairment loss. Based on the results of the step two analyses, we recorded a $56.6 million, or $48.1 million, net of tax, goodwill impairment charge in the third quarter of fiscal 2013 related to the TTC, GMP and AMT reporting units. The carrying amounts of these reporting units, including goodwill were as follows:

		June 30, 2013	
	TTC	**GMP**	**AMT**

	(in thousands)		
Carrying value before impairment	$ 245,634	$ 116,184	$ 56,474
Goodwill impairment	(27,900)	(11,900)	(16,800)
Carrying value after impairment	$ 217,734	$ 104,284	$ 39,674

As of June 30, 2013, the goodwill amounts after the impairment charges for the TTC, GMP and AMT reporting units were $111.1 million, $72.3 million and $32.6 million, respectively.

Table of Contents

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 acquired	12,306		143,304	155,610
Foreign exchange impact(3)	(21,748)		(5,307)	(27,055)
Post-acquisition adjustments	2,058	350		2,408
Goodwill impairment	(56,600)			(56,600)
Balance at June 30, 2013	$ 348,324	$ 174,217	$ 187,780	$ 710,321

(1) Prior-year amounts for ECS and TSS have been reclassified to conform to the current-year presentation (see Note 10, 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 and $7.6 million transferred in from EAS and ECS, respectively.

(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:

		June 30, 2013		September 30, 2012	
	Weighted-Average Remaining Life (in Years)	Gross Amount	Accumulated Amortization ($ in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	2.8	$ 6,174	$ (5,138)	$ 5,467	$ (4,685)
Client relations	4.7	128,399	(44,231)	99,096	(31,477)
Backlog	0.6	69,640	(62,362)	59,931	(55,908)
Technology and trade names	3.1	4,109	(1,837)	3,034	(1,227)
Total		$ 208,322	$ (113,568)	$ 167,528	$ (93,297)

Goodwill and intangible assets increased due to acquisitions completed during the first nine months of fiscal 2013, partially offset by the goodwill impairment and foreign currency translation adjustments. Amortization expense for these intangible assets for the three and nine months ended June 30, 2013 were $9.6 million and $24.2 million, respectively, compared to $6.9 million and $22.1 million for the prior-year periods. Estimated amortization expense for the remainder of fiscal 2013 and succeeding years is as follows:

	Amount (in thousands)
2013	$ 8,742

2014		26,238
2015		19,069
2016		15,921
2017		13,488
Beyond		11,296
Total	$	94,754

Table of Contents

6. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2013	September 30, 2012
	(in thousands)	
Land and buildings	$ 5,565	$ 5,537
Equipment, furniture and fixtures	205,511	177,710
Leasehold improvements	25,045	26,180
Total property and equipment	236,121	209,427
Accumulated depreciation	(148,745)	(135,118)
Property and equipment, net	$ 87,376	$ 74,309

For the three and nine months ended June 30, 2013, the depreciation expense related to property and equipment, including assets under capital leases, was $8.1 million and $22.4 million, respectively, compared to $6.1 million and $19.7 million for the prior-year periods.

In the third quarter of 2013, in connection with exit activities related to vacating leased facilities we recorded a loss of $6.5 million. The loss consisted of an accrued liability of $4.1 million for estimated contract termination costs associated with the long-term non-cancelable leases of those facilities, reduced by $0.3 million of write-offs of prorated portions of existing deferred items previously recognized in connection with the leases, and $2.7 million in net write-offs of fixed assets, primarily leasehold improvements, furniture and fixtures, that were no longer in use after vacating the facilities. The loss is recorded in other costs of revenue on the condensed consolidated statements of operations.

We initially measured the lease contract termination liability at the fair value of the prorated portion of the lease payments associated with the vacated facilities, reduced by estimated sublease rentals and other costs. If the actual timing and potential termination costs or realization of sublease income differ from our estimates, the resulting liabilities could vary from recorded amounts. These liabilities are reviewed periodically and adjusted when necessary. We expect the remaining lease payments to be paid through the various lease expiration dates that continue until 2021. The following is a reconciliation of the beginning and ending balances of these liabilities related to lease contract termination costs:

	ECS	TSS	Total
		(in thousands)	
Balance at September 30, 2012	$	$ 2,940	$ 2,940
Costs incurred and charged to expense	3,744	330	4,074
Adjustments (1)		(1,009)	(1,009)
Balance at June 30, 2013	$ 3,744	$ 2,261	$ 6,005

(1) Adjustments of the actual timing and potential termination costs or realization of sublease income.

7. 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 nine months ended June 30, 2013 was $2.8 million and $7.6 million, respectively, compared to $2.5 million and $8.2 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 operations. In the three months ended June 30, 2013, no stock options were granted. For the nine months ended June 30, 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 June 30, 2013, no restricted stock units (RSUs) to our non-employee directors, executive officers and employees were awarded. For the nine months ended June 30, 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.

Table of Contents

8. 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, excluding dilution 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 restricted stock units and shares using the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
	(in thousands)			
Weighted-average common shares outstanding basic	64,832	63,387	64,554	63,054
Effect of dilutive stock options and restricted stock units and shares		792		698
Weighted-average common stock outstanding diluted	64,832	64,179	64,554	63,752

The computation of diluted loss per share for the three and nine months ended June 30, 2013 excludes 0.7 million and 0.8 million of potential common shares due to their anti-dilutive effect. For the three and nine months ended July 1, 2012, 2.1 million and 2.9 million options were excluded from the calculation of dilutive potential common shares. 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 during the period. Therefore, their inclusion would have been anti-dilutive.

9. Income Taxes

The reconciliation of our income tax expense and effective income tax rates for the nine months ended June 30, 2013 and July 1, 2012 is as follows:

	Nine Months Ended			
	June 30, 2013		July 1, 2012	
	($ in thousands)			
Tax at federal statutory rate	$ (9,009)	35.0%	$ 39,800	35.0%
State taxes, net of federal benefit	210	(0.8)	3,848	3.4
R&E credits	(2,243)	8.7	(253)	(0.2)
Domestic production deduction	(889)	3.5	(543)	(0.5)
Tax differential on foreign earnings	(1,790)	7.0	(3,240)	(2.8)
Valuation allowance	3,832	(14.9)		
Goodwill	12,139	(47.2)		

Other		(1,142)	4.4		(90)	(0.1)
Total income tax expense	$	1,108	(4.3)%	$	39,522	34.8%

The effective tax rates for the first nine months of fiscal 2013 and 2012 were (4.3%) and 34.8%, respectively. The negative effective tax rate of 4.3% resulted primarily from the approximately $35 million goodwill impairment charge taken during the third quarter of fiscal 2013 that was not deductible for tax purposes. Excluding the impact of the goodwill impairment, the effective tax rates were 33.7% and 31.2% for the third quarter and first nine months of fiscal 2013, respectively.

At June 30, 2013, undistributed earnings of our foreign subsidiaries, primarily in Canada, aggregating approximately $22.0 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.

Table of Contents

We review the realizability of deferred tax assets on a quarterly basis by assessing the need for a valuation allowance. As of June 30, 2013, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Applying the applicable accounting guidance requires an assessment of all available evidence, positive and negative, regarding the realizability of the net deferred tax assets. Based upon recent results, we concluded that a cumulative loss in recent years exists in foreign jurisdictions. We have historically relied on the following factors in our assessment of the realizability of our net deferred tax assets:

- taxable income in prior carryback years as permitted under the tax law;
- future reversals of existing taxable temporary differences;
- consideration of available tax planning strategies and actions that could be implemented, if necessary; and
- estimates of future taxable income from our operations.

We considered these factors in our estimate of the reversal pattern of deferred tax assets, using assumptions that we believe are reasonable and consistent with operating results. However, as a result of projected cumulative pre-tax losses for the 36 months ending September 29, 2013, we concluded that our estimates of future taxable income and certain tax planning strategies did not constitute sufficient positive evidence to assert that it is more likely than not that certain deferred tax assets would be realizable before expiration. Although we project earnings in the business beyond 2013, we did not rely on these projections when assessing the realizability of our deferred tax assets.

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.

10. 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 results for the prior year have been revised to conform to the current-year presentation. Our reportable segments and their primary business activities 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.

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, transportation, 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.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
	(in thousands)			
Revenue				
ECS	$ 251,239	$ 296,995	$ 788,600	$ 856,050
TSS	221,198	258,435	687,230	762,897
RCM	162,560	153,826	499,491	432,043
Elimination of inter-segment revenue	(20,162)	(24,558)	(59,942)	(59,320)
Total revenue	$ 614,835	$ 684,698	$ 1,915,379	$ 1,991,670
Operating (Loss) Income				
ECS	$ (7,700)	$ 27,124	$ 22,793	$ 70,075
TSS	5,118	20,658	49,723	57,602
RCM	(35,285)	6,184	(14,109)	16,073
Corporate (1)	(62,017)	(7,705)	(78,816)	(25,854)
Total operating (loss) income	$ (99,884)	$ 46,261	$ (20,409)	$ 117,896
Depreciation				
ECS	$ 2,941	$ 1,852	$ 8,154	$ 7,403
TSS	723	749	2,198	2,432
RCM	3,700	2,674	9,735	7,547
Corporate	726	802	2,333	2,275
Total depreciation	$ 8,090	$ 6,077	$ 22,420	$ 19,657

(1) Includes goodwill impairment charge, amortization of intangibles, other costs and other income not allocable to segments. The goodwill impairment charge of $56.6 million for the three and nine-month periods was recorded at Corporate. The intangible asset amortization expense for the three and nine-month periods of fiscal 2013 was $9.6 million and $24.2 million, respectively, compared to $6.9 million and $22.1 million for the same periods last year.

	June 30, 2013	September 30, 2012
	(in thousands)	
Total Assets		
ECS	$ 910,453	$ 915,571
TSS	673,799	638,405
RCM	413,032	311,051
Assets not allocated to segments and intercompany eliminations (1)	(225,772)	(193,997)
Total assets	$ 1,771,512	$ 1,671,030

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

Table of Contents

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.

The following table presents our revenue by client sector:

	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
	(in thousands)			
Client Sector				
International (1)	$ 158,579	$ 170,055	$ 522,921	$ 484,767
U.S. commercial	167,280	183,601	488,722	503,469
U.S. federal government (2)	187,983	245,050	621,677	769,167
U.S. state and local government	100,993	85,992	282,059	234,267
Total	$ 614,835	$ 684,698	$ 1,915,379	$ 1,991,670

(1) Includes revenue generated from foreign operations, primarily in Canada, and revenue generated from non-U.S. clients.

(2) Includes revenue generated under U.S. federal government contracts performed outside the United States.

11. 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 (loss) 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 operations for the period.

Contingent Consideration. We measure our contingent earn-out liabilities at fair value on a recurring basis (see Note 4, Mergers and Acquisitions for further discussion).

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 approximated fair value at June 30, 2013 and September 30, 2012. For the first nine months of fiscal 2013, we had a net borrowing of $130.8 million under our amended credit agreement to fund our business acquisitions, working capital needs and contingent earn-outs (see Note 13, Credit Facility for more information).

12. Joint Ventures

Consolidated Joint Ventures

The aggregate revenue of our consolidated joint ventures for the three and nine months ended June 30, 2013 was $2.8 million and $9.8 million, respectively, compared to $3.1 million and $12.1 million for the same periods last year. The assets and liabilities of these consolidated joint ventures were immaterial at June 30, 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 June 30, 2013 and September 30, 2012 were $0.6 million and $1.6 million, respectively.

Table of Contents

Unconsolidated Joint Ventures

We account for 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 operations. For the three and nine months ended June 30, 2013, we reported $0.6 million and $2.5 million of equity in earnings of unconsolidated joint ventures, respectively, compared to $0.8 million and $2.4 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 condensed consolidated financial statements.

The aggregate carrying values of the assets and liabilities of the unconsolidated joint ventures were $20.1 million and $17.4 million, respectively, at June 30, 2013, and $19.0 million and $15.7 million, respectively, at September 30, 2012.

13. Credit Facility

At March 31, 2013, we had a credit agreement that provided for a $460 million five-year revolving credit facility that matured in March 2016. On May 7, 2013, we entered into an Amended and Restated Credit Agreement (the Amended Credit Agreement) and refinanced the indebtedness under the prior credit agreement. The Amended Credit Agreement is a $665 million senior secured, five-year facility that provides for a $205 million term loan facility (the Term Loan Facility) and a $460 million revolving credit facility (the Revolving Credit Facility). The Amended Credit Agreement allows us to, among other things, finance certain permitted open market repurchases of our common stock, permitted acquisitions, and cash dividends and distributions. The Revolving Credit Facility includes a $200 million sublimit for the issuance of standby letters of credit, a $20 million sublimit for swingline loans, and a $150 million sublimit for multicurrency borrowings and letters of credit. At June 30, 2013, we had $441.6 million of available credit under the Revolving Credit Facility, of which $97.5 million could be borrowed without a violation of our debt covenants.

The entire Term Loan Facility was drawn on May 7, 2013. The Term Loan Facility is subject to quarterly amortization of principal, with no principal payment due in year 1, $10.3 million payable in both years 2 and 3, and $15.4 million payable in both years 4 and 5, respectively. The Term Loan may be prepaid at any time without penalty. We may borrow on the Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.15% to 2.00% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank s prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.15% to 1.00% per annum. In each case, the applicable margin is based on our Consolidated Leverage Ratio, calculated quarterly. The Term Loan Facility is subject to the same interest rate provisions. The interest rate of the Term Loan Facility at the date of inception was 1.57%. The Amended Credit Agreement expires on May 7, 2018, or earlier at our discretion upon payment in full of loans and other obligations.

The Amended Credit Agreement contains certain affirmative and restrictive covenants, and customary events of default. The financial covenants provide for a maximum Consolidated Leverage Ratio of 2.50 to 1.00 (total funded debt/EBITDA, as defined in the Amended Credit Agreement) and a minimum Consolidated Fixed Charge Coverage Ratio of 1.25 to 1.00 (EBITDA, as defined in the Amended Credit Agreement minus capital expenditures/cash interest plus taxes plus principal payments of indebtedness including capital leases, notes and post-acquisition payments). Our obligations under the Amended Credit Agreement are guaranteed by certain of our subsidiaries and are secured by first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Amended Credit Agreement, and (ii) our accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers. We had borrowings outstanding under the Amended Credit Agreement at June 30, 2013 of $209.8 million, of which $205 million was outstanding under the Term Loan Facility, and $4.8 million was outstanding under the Revolving Credit Facility. In addition, there was $13.6 outstanding in standby letters of credit under the Amended Credit Agreement.

14.   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.

Table of Contents

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 then-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 that 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.

On June 28, 2013, a purported class action lawsuit was filed against Tetra Tech and two of our officers in United States District Court for the Central District of California. The action was purportedly brought on behalf of purchasers of our publicly traded securities between May 3, 2012 and June 18, 2013. The complaint alleges generally that we and those officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and related rules because we allegedly failed to take unspecified, necessary charges to our accounts receivables and earnings during the class period. In addition, the complaint alleges that the financial guidance we offered during the class period was intentionally or recklessly false and misleading. The complaint alleges unspecified damages based on the decline in the market price of our shares following the issuance of revised guidance on June 18, 2013. We believe the complaint is without merit and intend to defend the case vigorously.

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

15. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued new guidance on the presentation of comprehensive income. We are required to present components of net income and other comprehensive income in either one single continuous statement or in two separate consecutive statements. This guidance was effective for us in the first quarter of fiscal 2013 and it did not have an impact on our condensed consolidated financial statements.

In September 2011, the FASB issued updated guidance to simplify goodwill impairment testing. The amendment permits us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The guidance was effective for us in July 2013 when we perform our annual goodwill impairment test. This guidance did not have a material impact on our condensed consolidated financial statements.

Table of Contents

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 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. We are required to disclose additional information about changes in and significant items reclassified out of accumulated other comprehensive income. The 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.

In July 2013, the FASB issued an update on an inclusion of the Fed Funds Effective Swap as a benchmark interest rate (Overnight Interest Swap Rate) for hedge accounting purposes. This guidance permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under U.S. GAAP. This guidance will be effective prospectively for qualifying new or redesigned hedging relationships entered into on or after July 17, 2013. We do not expect a material impact to our condensed consolidated financial statements.

In July 2013, the FASB issued an update on the financial statement presentation of unrecognized tax benefits. We are required to present a liability related to an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance will be 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, project intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify su 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		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Client Sector				
International (1)	25.8%	24.8%	27.3%	