

TETRA TECH INC  
Form 10-Q  
July 31, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**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 28, 2009**

**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**

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**TETRA TECH, INC.**

(Exact name of registrant as specified in its charter)

Delaware

95-4148514

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(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 office and 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 periods 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 ☐

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 ☒

As of July 27, 2009, 60,567,084 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)**

	June 28, 2009	September 28, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 48,275	\$ 50,902
Accounts receivable net	555,799	625,786
Prepaid expenses and other current assets	54,188	36,774
Income taxes receivable	7,203	4,275
Deferred income taxes		2,316
Total current assets	665,465	720,053
<b>PROPERTY AND EQUIPMENT:</b>		
Land and buildings	9,505	7,588
Equipment, furniture and fixtures	123,359	112,780
Leasehold improvements	13,392	10,804
Total	146,256	131,172
Accumulated depreciation and amortization	(77,322)	(69,784)
PROPERTY AND EQUIPMENT NET	68,934	61,388
DEFERRED INCOME TAXES		6,498
INCOME TAXES RECEIVABLE		14,953
GOODWILL	310,210	221,545
INTANGIBLE ASSETS NET	30,124	14,609
OTHER ASSETS	17,522	15,081
ASSETS OF DISCONTINUED OPERATION	1,415	2,418
<b>TOTAL ASSETS</b>	<b>\$ 1,093,670</b>	<b>\$ 1,056,545</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 169,681	\$ 223,304
Accrued compensation	74,542	101,699
Billings in excess of costs on uncompleted contracts	97,936	100,336
Deferred income taxes	16,795	
Current portion of long-term obligations	6,346	3,926
Other current liabilities	67,891	58,634
Total current liabilities	433,191	487,899

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DEFERRED INCOME TAXES	3,554	
LONG-TERM OBLIGATIONS	48,531	53,292
OTHER LONG-TERM LIABILITIES	6,236	3,840
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding as of June 28, 2009 and September 28, 2008		
Common stock authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 60,469 and 59,875 shares as of June 28, 2009 and September 28, 2008, respectively	605	599
Additional paid-in capital	331,988	314,860
Accumulated other comprehensive income	6,992	15
Retained earnings	262,573	196,040
TOTAL STOCKHOLDERS' EQUITY	602,158	511,514
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,093,670	\$ 1,056,545

See accompanying Notes to Condensed Consolidated Financial Statements.

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**Tetra Tech, Inc.**
**Condensed Consolidated Statements of Income**

(unaudited in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Revenue	\$ 551,376	\$ 564,277	\$ 1,712,364	\$ 1,496,050
Subcontractor costs	(194,449)	(232,008)	(693,197)	(599,269)
Revenue, net of subcontractor costs	356,927	332,269	1,019,167	896,781
Other contract costs	(282,258)	(266,379)	(813,835)	(716,874)
Gross profit	74,669	65,890	205,332	179,907
Selling, general and administrative expenses	(41,918)	(37,840)	(116,136)	(104,316)
Income from operations	32,751	28,050	89,196	75,591
Interest expense net	(473)	(483)	(2,240)	(2,600)
Income before income tax expense	32,278	27,567	86,956	72,991
Income tax expense	(1,267)	(11,432)	(20,423)	(30,283)
Net income	\$ 31,011	\$ 16,135	\$ 66,533	\$ 42,708
Earnings per share:				
Basic	\$ 0.52	\$ 0.27	\$ 1.11	\$ 0.73
Diluted	\$ 0.51	\$ 0.27	\$ 1.10	\$ 0.72
Weighted-average common shares outstanding:				
Basic	60,123	58,943	59,947	58,590
Diluted	61,108	59,833	60,707	59,331

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Nine Months Ended</b>	
	<b>June 28, 2009</b>	<b>June 29, 2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 66,533	\$ 42,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,400	13,398
Stock-based compensation	6,988	6,140
Excess tax benefits from stock-based compensation	(400)	(1,060)
Deferred income taxes	4,411	9,034
Provision for losses on contracts and related receivables	14,674	7,561
Exchange loss (gain)	32	(245)
Gain on disposal of property and equipment	(76)	(1,214)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	92,629	(69,734)
Prepaid expenses and other assets	(10,808)	(7,752)
Accounts payable	(76,759)	13,505
Accrued compensation	(27,157)	(3,021)
Billings in excess of costs on uncompleted contracts	(12,495)	32,918
Other liabilities	(531)	13,176
Income taxes receivable/payable	31,008	(12,310)
Net cash provided by operating activities	107,449	43,104
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(13,324)	(13,831)
Payments for business acquisitions, net of cash acquired	(102,828)	(58,508)
Proceeds from sale of discontinued operation	192	2,689
Proceeds from sale of property and equipment	324	2,026
Net cash used in investing activities	(115,636)	(67,624)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term obligations	(120,296)	(31,415)
Proceeds from borrowings under long-term obligations	118,168	15,000
Excess tax benefits from stock-based compensation	400	1,060
Net proceeds from issuance of common stock	6,471	12,498
Net cash provided by (used in) financing activities	4,743	(2,857)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	817	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,627)	(27,377)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,902	76,741
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 48,275	\$ 49,364
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		

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Cash paid (received) during the period for:

Interest	\$	1,986	\$	3,258
Income taxes, net of refunds received	\$	(14,816)	\$	28,736

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 condensed consolidated balance sheet as of June 28, 2009, the condensed consolidated statements of income for the three and nine months ended June 28, 2009 and June 29, 2008, and the condensed consolidated statements of cash flows for the nine months ended June 28, 2009 and June 29, 2008 of Tetra Tech, Inc. ( we, us or our ) are unaudited, and, in the opinion of management, include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The consolidated balance sheet as of September 28, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. generally accepted accounting principles ( GAAP ) for complete financial statements.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 28, 2008. The results of operations for the three and nine months ended June 28, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending September 27, 2009. Certain prior year amounts have been reclassified to conform to the current year presentation. In the first quarter of fiscal 2009, we began reporting under four reportable segments with reclassification of prior year segment results to conform to the new basis of presentation. Refer to Note 7, Reportable Segments for additional information.

Our international operating units have functional currencies that are different than our reporting currency. Their functional currencies are typically based upon the currencies of the primary country in which they operate. Translation of assets and liabilities to U.S. dollars is based on exchange rates at the balance sheet date. Translation of revenue and expenses to U.S. dollars is based on the average rate during the period. Translation gains or losses are reported as a component of Accumulated other comprehensive income. Gains or losses from foreign currency transactions are included in results of operations, with the exception of inter-company foreign transactions that represent a long-term investment, which are recorded in Accumulated other comprehensive income on our condensed consolidated balance sheet as of June 28, 2009.

**2. Accounts Receivable Net**

Net accounts receivable consisted of the following:

	June 28, 2009	September 28, 2008 (in thousands)
Billed	\$ 340,044	\$ 379,948

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Unbilled	233,057	246,715
Contract retentions	13,821	20,649
Total accounts receivable gross	586,922	647,312
Allowance for doubtful accounts	(31,123)	(21,526)
Total accounts receivable net	\$ 555,799	\$ 625,786
Billings in excess of costs on uncompleted contracts	\$ 97,936	\$ 100,336

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. Substantially all unbilled receivables as of June 28, 2009 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 was determined based on a review of customer-specific accounts, bankruptcy filings by clients, and contract issues resulting from current events and economic circumstances.

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Billed accounts receivable related to federal government contracts were \$116.4 million and \$100.2 million as of June 28, 2009 and September 28, 2008, respectively. Federal government unbilled receivables, net of progress payments, were \$102.6 million and \$88.6 million as of June 28, 2009 and September 28, 2008, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable as of June 28, 2009. The federal government and one commercial client each accounted for more than 10% of our accounts receivable as of September 28, 2008.

### 3. Goodwill and Intangibles

In the first quarter of fiscal 2008, we acquired ARD, Inc. ( ARD ), which provides applied research, planning, design and implementation services focused on a range of water, energy, environmental and institutional issues. ARD manages large, complex international development projects for its clients, predominantly the U.S. Agency for International Development ( USAID ). This acquisition continued our international expansion as it increased our professional workforce in new geographic areas and technical specialties around the world. ARD is part of our technical support services ( TSS ) segment. In the second and third quarters of fiscal 2008, we made other acquisitions that enhanced our service offerings and expanded our geographic reach in our engineering and architecture services ( EAS ), environmental consulting services ( ECS ) and TSS segments. The purchase prices for these acquisitions consisted of cash and, for certain acquisitions, contingent earn-out payments due upon achievement of certain financial objectives.

In the second quarter of fiscal 2009, we acquired Wardrop Engineering, Inc. ( Wardrop ), a Canadian firm that specializes in resource management, energy and infrastructure design and is included in our ECS segment. This acquisition significantly expanded our worldwide presence, adding 13 offices throughout Canada and offices in the United Kingdom and India. During the first nine months of fiscal 2009, we made other acquisitions that broadened our service offerings to USAID in the TSS segment, to broad-based clients in the ECS segment, and to federal government clients in the remediation and construction management ( RCM ) segment. The aggregate purchase price for these acquisitions was approximately \$100 million plus contingent earn-out payments due upon achievement of certain financial objectives. One of these acquisitions resulted in an excess of \$2.6 million of the fair value of identifiable assets acquired and liabilities assumed over the purchase price. Due to a contingent consideration agreement that will likely result in a recognition of additional purchase price upon resolution, the excess amount of \$2.6 million was recognized as a liability as part of Other current liabilities on our condensed consolidated balance sheet as of June 28, 2009, in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*. No pro forma results are presented for the respective interim periods as the effect of these acquisitions was not material, individually or in the aggregate, to our condensed consolidated financial statements.

The changes in the carrying value of goodwill by segment for the nine months ended June 28, 2009 were as follows:

	September 28, 2008	Goodwill Additions (in thousands)	Goodwill Adjustments	June 28, 2009
Environmental consulting services	\$ 99,096	\$ 73,462	\$ 7,383	\$ 179,941
Technical support services	53,552	3,704		57,256
Engineering and architecture services	14,854		1,116	15,970
Remediation and construction management	54,043		3,000	57,043
Total	\$ 221,545	\$ 77,166	\$ 11,499	\$ 310,210

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The goodwill additions are attributable to the fiscal 2009 acquisitions described above. Substantially all of the goodwill additions are not deductible for income tax purposes. The goodwill adjustments reflect earn-out payments, a guaranteed deferred cash payment, foreign currency translation adjustments, agreed upon net asset value adjustments, and the final purchase price allocations associated with prior acquisitions. The purchase price allocations related to the Wardrop acquisition and certain recent acquisitions are preliminary, and subject to adjustment based on the valuation and final determination of the net assets acquired.

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The gross amount and accumulated amortization of our acquired identifiable intangible assets with finite useful lives as of June 28, 2009 and September 28, 2008, included in Intangible assets - net on the condensed consolidated balance sheets, were as follows:

	June 28, 2009		September 28, 2008	
	Gross Amount	Accumulated Amortization (in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	\$ 3,516	\$ (864)	\$ 1,472	\$ (368)
Customer relations	20,024	(2,619)	5,746	(897)
Backlog	25,333	(15,266)	19,310	(10,654)
Total	\$ 48,873	\$ (18,749)	\$ 26,528	\$ (11,919)

For the nine months ended June 28, 2009, non-compete agreements, customer relations and backlog increased \$2.0 million, \$14.3 million and \$6.0 million in gross amounts, respectively, due to our aforementioned acquisitions and, to a lesser extent, foreign currency translation adjustments. For the three and nine months ended June 28, 2009, amortization expense for these intangible assets was \$2.7 million and \$6.8 million, compared to \$1.4 million and \$3.9 million for the same periods last year, respectively. Estimated amortization expense for the remainder of fiscal 2009 and the succeeding years is as follows:

	Amount (in thousands)
2009	\$ 2,726
2010	9,326
2011	6,815
2012	3,921
2013	2,493
Beyond	4,843

**Subsequent Event.** In the fourth quarter of fiscal 2009, we acquired Bryan A. Stirrat & Associates, a consulting and engineering firm that specializes in landfill design, leachate and hazardous waste management, energy recovery and groundwater protection services. This acquisition is part of our ECS segment and is not material to our condensed consolidated financial statements. We evaluated subsequent events through July 31, 2009, the date our financial statements were issued.

## 4. Stockholders Equity and Stock Compensation Plans

We account for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment (revised 2004)* ( SFAS 123R ). Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the value of the award granted, and recognized over the period in which the award vests. For the three and nine months ended June 28, 2009, stock-based compensation expense was \$2.4 million and \$7.0 million, compared to \$2.2 million and \$6.1 million for the same periods last year, respectively. These amounts were primarily included in Selling, general and administrative ( SG&A ) expenses in our condensed consolidated statements of income. In the third quarter of fiscal 2009, we granted 4,000 stock options with exercise prices of \$21.96 per share and an estimated weighted-average fair value of \$10.22 per share. For the nine months ended June 28, 2009, we granted 1,036,200 stock options with exercise prices ranging from \$16.98 to \$22.40 per share and an estimated weighted-average fair value of \$7.59 per share.

**5. 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		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
	(in thousands, except per share data)			
Numerator:				
Net income	\$ 31,011	\$ 16,135	\$ 66,533	\$ 42,708
Denominator for basic earnings per share				
	60,123	58,943	59,947	58,590
Denominator for diluted earnings per share:				
Denominator for basic earnings per share	60,123	58,943	59,947	58,590
Potential common shares   stock options	985	890	760	741
Denominator for diluted earnings per share	61,108	59,833	60,707	59,331
Earnings per share:				
Basic	\$ 0.52	\$ 0.27	\$ 1.11	\$ 0.73
Diluted	\$ 0.51	\$ 0.27	\$ 1.10	\$ 0.72

For the three and nine months ended June 28, 2009, 0.9 million and 1.3 million common stock options were excluded from the calculation of dilutive potential common shares, compared to 1.5 million and 2.6 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.

## 6. Income Taxes

In the second quarter of fiscal 2009, we received notification from the Internal Revenue Service ( IRS ) that our appeals settlement for fiscal years 1997 through 2001 was approved. The IRS approved refunds for a tax accounting method change for revenue recognition and refund claims for research and experimentation credits ( R&E Credits ). In the third quarter of fiscal 2009, we received a cash refund of \$39.8 million from the IRS settlement for these years, which included interest. The amount of the settlement exceeded the amount of the receivable previously recognized in our financial statements. We recorded a benefit of \$3.3 million in our income tax expense in the second quarter of fiscal 2009 to reflect the settlement adjustment and an adjustment to certain unrecognized tax benefits (including related interest) for the fiscal years subsequent to the settlement.

We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the California Franchise Tax Board ( FTB ) for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next twelve months. If the resolution is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made.

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In the third quarter of fiscal 2009, we completed R&E Credit studies and analyses for the tax years subsequent to the years settled. In order to claim an R&E Credit, we had to perform a detailed study to determine those activities that qualified for credits in any fiscal year. The tax regulations are complex and our business activities change from year to year. Prior to the IRS appeals settlement for fiscal years 1997 through 2001, there was uncertainty about whether and to what extent the IRS would approve our study methodology and any credit we claimed. As a result, we did not incur the cost of studies until we believed the credit ultimately sustainable under examination would exceed the cost of the study. Based upon the IRS settlement and the completed studies and analyses, we now have sufficient information to reasonably estimate the income tax benefits for R&E Credits for fiscal years subsequent to fiscal 2004. We recorded a benefit of approximately \$9.7 million in our income tax expense in the third quarter of fiscal 2009 to reflect the estimated amount of previously unclaimed R&E Credits for periods prior to fiscal 2009. Additionally, we have revised our estimated annual effective tax rate for fiscal 2009 to include R&E Credits for fiscal 2009.



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Our effective tax rate is 3.9% and 23.5% for the three and nine months ended June 28, 2009, respectively. The \$3.3 million and the \$9.7 million adjustments in the second and third quarters of fiscal 2009, respectively, reduced our effective tax rate for the nine months ended June 28, 2009 by 15.0%.

As a result of the settlement, studies and analyses described above, we adjusted certain unrecognized tax benefits and reclassified various balance sheet amounts to reflect our tax position as of June 28, 2009. The total adjustment to unrecognized tax benefits was a net decrease of \$18.0 million for the nine months ended June 28, 2009, resulting in a balance of \$20.9 million as of June 28, 2009. Included in this balance was \$14.9 million of tax benefits that, if recognized, would affect our income tax provision. Our current deferred income tax liability of \$16.8 million as of June 28, 2009 increased from September 28, 2008 primarily because of the recognition of previously unrecognized tax benefits related to our approved tax accounting method change for revenue recognition.

**7. Reportable Segments**

In the first quarter of fiscal 2009, we began reporting under four new reportable segments with reclassification of the prior year segment results to conform to the new basis of presentation. Each of the new reportable segments is comprised of similar activities that focus on the services it provides, the markets it serves, the distribution method of its services, its contracting mechanisms, the organization and execution of its projects, the education and discipline of its workforce, and the metrics by which its client projects and staff are measured. In addition, each of our operating groups, which are also our reportable segments, is managed by its own president, who has responsibility for the segment's business units. Each president directly reports to our Chief Executive Officer, who is our chief operating decision maker ( CODM ). The CODM regularly reviews the four reportable segments, allocates resources to these segments and assesses each segment's performance. The reportable segments are as follows:

*Environmental Consulting Services ( ECS ).* ECS provides front-end science and consulting services and project management skills in the areas of water resources, groundwater services, watershed management, mining and geotechnical sciences, environmental management, and information technology and modeling consulting.

*Technical Support Services ( TSS ).* TSS advises clients, studies, designs and implements projects, and conducts research in the areas of remedial and developmental planning, regulatory consulting, climate change and carbon management services, disaster management, systems test and support services, and program management for complex federal government and international development projects.

*Engineering and Architecture Services ( EAS ).* EAS provides engineering, architecture, interior and exterior design, Leadership in Energy and Environmental Design ( LEED ), and program administration services for projects that include water and wastewater conveyance and treatment, building construction, land development and transportation services.

*Remediation and Construction Management ( RCM ).* RCM provides a wide array of services, including program management, engineering, procurement and construction, construction management, and operations and maintenance focused on federal construction, environmental remediation including unexploded ordnance ( UXO ) and wetland restoration, energy projects including wind, nuclear engineering and other alternative energies, and communications development and construction.

Management evaluates the performance of these reportable segments based upon their respective income from operations 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 inter-company balances and transactions are eliminated in consolidation.

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

## Reportable Segments:

	ECS	TSS	EAS (in thousands)	RCM	Total
<b>Three months ended June 28, 2009:</b>					
Revenue	\$ 157,680	\$ 136,940	\$ 69,800	\$ 206,644	\$ 571,064
Revenue, net of subcontractor costs	121,212	80,315	56,895	98,505	356,927
Gross profit	23,876	15,752	11,739	23,302	74,669
Segment income from operations	13,236	9,180	3,489	10,588	36,493
Depreciation expense	876	195	545	1,954	3,570
<b>Three months ended June 29, 2008:</b>					
Revenue	\$ 132,982	\$ 120,522	\$ 82,217	\$ 253,030	\$ 588,751
Revenue, net of subcontractor costs	92,307	74,812	65,727	99,423	332,269
Gross profit	18,827	13,722	13,256	20,085	65,890
Segment income from operations	11,096	8,425	4,963	7,077	31,561
Depreciation expense	524	197	566	1,910	3,197
<b>Nine months ended June 28, 2009:</b>					
Revenue	\$ 429,224	\$ 389,995	\$ 234,212	\$ 720,409	\$ 1,773,840
Revenue, net of subcontractor costs	315,079	235,354	183,339	285,395	1,019,167
Gross profit	57,832	46,875	37,497	63,128	205,332
Segment income from operations	31,300	27,911	11,784	28,569	99,564
Depreciation expense	2,544	548	1,646	5,756	10,494
<b>Nine months ended June 29, 2008:</b>					
Revenue	\$ 357,614	\$ 319,626	\$ 236,668	\$ 642,671	\$ 1,556,579
Revenue, net of subcontractor costs	251,405	205,282	193,336	246,758	896,781
Gross profit	48,460	37,737	38,622	55,088	179,907
Segment income from operations	27,263	22,084	14,831	19,662	83,840
Depreciation expense	1,608	677	1,641	4,282	8,208

Total assets by segment were as follows:

	June 28, 2009	September 28, 2008 (in thousands)
ECS	\$ 475,431	\$ 314,331
TSS	232,120	205,981
EAS	92,880	92,886
RCM	342,272	368,452
Total assets	\$ 1,142,703	\$ 981,650



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### *Reconciliations:*

	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
	(in thousands)			
<b>Revenue</b>				
Revenue from reportable segments	\$ 571,064	\$ 588,751	\$ 1,773,840	\$ 1,556,579
Elimination of inter-segment revenue	(19,688)	(24,474)	(61,476)	(60,529)
Total consolidated revenue	\$ 551,376	\$ 564,277	\$ 1,712,364	\$ 1,496,050
<b>Income from operations</b>				
Segment income from operations	\$ 36,493	\$ 31,561	\$ 99,564	\$ 83,840
Other expense (1)	(1,112)	(2,113)	(3,604)	(4,375)
Amortization of intangibles	(2,630)	(1,398)	(6,764)	(3,874)
Total consolidated income from operations	\$ 32,751	\$ 28,050	\$ 89,196	\$ 75,591

(1) Other expense includes corporate costs not allocable to segments.

	June 28, 2009	September 28, 2008
	(in thousands)	
<b>Assets</b>		
Total assets of reportable segments	\$ 1,142,703	\$ 981,650
Assets not allocated to segments and inter-company eliminations	(50,448)	72,477
Assets from discontinued operation	1,415	2,418
Total assets	\$ 1,093,670	\$ 1,056,545

### *Major Clients:*

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

The following table presents revenue by client sector:

	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
	(in thousands)			
Client Sector				

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Federal government	\$	306,554	\$	307,929	\$	862,147	\$	825,042
State and local government		66,713		88,717		204,605		238,084
Commercial		140,275		163,848		573,981		423,589
International (1)		37,834		3,783		71,631		9,335
Total	\$	551,376	\$	564,277	\$	1,712,364	\$	1,496,050

(1) Includes revenue generated from our international clients. Revenue related to projects performed in foreign countries for U.S. government and U.S. commercial clients was reported as part of our federal government and commercial client sectors, respectively.

Table of Contents**8. Pension Plan**

In connection with the Wardrop acquisition, we assumed the assets and obligations under Wardrop's defined benefit pension plan, which primarily covered a group of active and inactive employees and a limited number of retirees. No new employees are eligible to participate in this plan. Pursuant to the Wardrop purchase agreement, Wardrop agreed to terminate this plan by the end of fiscal 2009. Further, an escrow account was established under the purchase agreement to fully fund the defined benefit pension settlement liability and all post-closing expenses. We assumed the initial net liability of approximately \$5.7 million (net of plan assets of approximately \$11.3 million) as of the acquisition date. Through the third quarter of fiscal 2009, Wardrop purchased insurance annuities for existing pensioners and inactive employees, and settled the obligations with these participants for approximately \$12.4 million. This amount was paid with plan assets and a portion of funds from the purchase agreement escrow account. The remaining liability for active employees was estimated to be approximately \$4.9 million. The net periodic benefit expense for the three and nine months ended June 28, 2009 was immaterial.

**9. Comprehensive Income**

Comprehensive income is comprised of net income and other comprehensive income, which includes translation gains and losses from foreign subsidiaries with functional currencies different than our reporting currency. The following summarizes our comprehensive income:

	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
	(in thousands)			
Net income	\$ 31,011	\$ 16,135	\$ 66,533	\$ 42,708
Other comprehensive income (loss)	6,734	(51)	6,977	(78)
Total comprehensive income	\$ 37,745	\$ 16,084	\$ 73,510	\$ 42,630

**10. 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 on our financial position, results of operations or cash flows, management acknowledges the uncertainty surrounding the ultimate resolution of these matters.

In May 2003, Innovative Technologies Corporation (ITC) filed a lawsuit in Montgomery County, Ohio against Advanced Management Technology, Inc. (AMT) and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded \$5.8 million in compensatory damages against AMT. In addition, the jury awarded \$17 million in punitive damages against AMT plus reasonable attorneys fees. The court required AMT to post a \$1 million bond which has been done. In July 2008, the Common Pleas Court of Montgomery County denied AMT's motion for judgment

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notwithstanding the verdict and conditionally denied AMT's motion for a new trial. Further, the court remitted the verdict to \$2.0 million in compensatory damages and \$5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC's motion for prejudgment interest and attorneys' fees. The trial court has not yet ruled on ITC's motion. We expect that appeals will follow the court's ruling. We believe that a reasonably possible range of exposure, including our attorneys' fees, is from \$0 to approximately \$14.5 million. As of June 28, 2009, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable



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they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

In the fourth quarter of fiscal 2008, a domestic real estate investment trust (the REIT) that owns and rents apartments filed suit against us and a former employee in the United States District Court for the Eastern District of Virginia. The suit alleged that employees at one of our operating divisions in Colorado participated in a scheme to defraud the REIT in connection with contracts for environmental clean-up work between us and the REIT. On March 30, 2009, the parties definitively settled their dispute and agreed that their claims against each other will be dismissed. The impact to our results of operations for the three and nine months ended June 28, 2009 was not material.

**11. Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standard Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Dates of FASB Statement No. 157*, which deferred the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. In October 2008, the FASB also issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market of that financial asset is not active. The FSP observes that revisions resulting from a change in valuation technique or its application should be accounted for as a change in accounting estimate, and any effects on fair-value measurement would be recognized in the period of adoption. Our adoption of SFAS 157 on September 29, 2008 was limited to financial assets and liabilities and had no impact on our condensed consolidated financial statements in the first nine months of fiscal 2009. We are currently evaluating the anticipated effect of this statement on our non-financial assets and non-financial liabilities.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 became effective for us as of the beginning of our fiscal year 2009. We did not elect the fair value option for any financial assets or liabilities during the first quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes the principles and requirements for how an acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R makes significant changes to existing accounting practices for acquisitions, including the requirement to expense transaction costs and to reflect the fair value of contingent purchase price adjustments at the date of acquisition. In April 2009, the FASB issued SFAS No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (SFAS 141R-1). SFAS 141R-1 amends and clarifies SFAS 141R, to require that an acquirer recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of such an asset acquired or liability assumed cannot be determined, the acquirer should apply the provisions of SFAS No. 5, *Accounting for Contingencies*, to determine whether the contingency should be recognized at the acquisition date or after it. SFAS 141R and SFAS 141R-1 are

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effective for business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. We will implement the new standard effective in fiscal 2010. For any acquisitions completed after our fiscal 2009, we expect SFAS 141R will have an impact on our consolidated

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financial statements; however, the nature and magnitude of the impact will depend upon the nature, terms and size of the acquisitions we consummate.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards that require (i) noncontrolling interests to be reported as a component of equity; (ii) changes in a parent's ownership interest while the parent retains its controlling interest to be accounted for as equity transactions; and (iii) any retained noncontrolling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. We do not currently have any less than wholly-owned consolidated subsidiaries. SFAS 160 is to be applied prospectively at the beginning of the first annual reporting period on or after December 15, 2008. We will implement the new standard effective in fiscal 2010. We do not believe that the adoption of SFAS 160 will have a material effect on our consolidated financial statements.

In December 2007, Emerging Issues Task Force ( EITF ) issued 07-01, *Accounting for Collaborative Arrangements* ( EITF 07-01 ), to prescribe the accounting for collaborations. It requires certain transactions between collaborators to be recorded in the financial statements on either a gross or net basis when certain characteristics exist in the collaboration relationship. EITF 07-01 is effective in fiscal 2010 for all of our collaborations. We do not believe that the adoption of EITF 07-01 will have a material effect on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 revises the factors that should be considered in developing renewal or extension assumptions determining the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 will be effective for fiscal years beginning after December 15, 2008. We will implement the new standard effective in fiscal 2010. We are currently assessing the effect of FSP 142-3 on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and must be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1, which is applied retrospectively, is effective for us in fiscal 2010. We are currently assessing the effect of FSP EITF 03-6-1 on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165, effective June 15, 2009, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is currently effective for us and the adoption of SFAS 165 did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB No. 162* ( SFAS 168 ). SFAS 168 establishes the FASB Accounting Standards Codification ( Codification ), as the single source of authoritative United States accounting and reporting standards applicable for all non-government entities, with the exception of the Securities and Exchange Commission and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. We will implement the new standard effective in fiscal 2009, and all references made to U.S. GAAP will use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing U.S. GAAP, we do not believe that the adoption of SFAS 168 will have a material effect on our consolidated financial statements.



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**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 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. 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 used 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, as well as under the heading 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 any forward-looking statements for any reason.

**OVERVIEW**

We are a leading provider of consulting, engineering, program management, construction and technical services focusing on resource management, infrastructure and the environment. We serve our clients by providing cost-effective and innovative solutions to fundamental needs for water, environmental and energy services. We typically begin at the earliest stage of a project by applying science to problems and developing solutions tailored to our clients' needs and resources. Our solutions may span the entire life cycle of the project and include applied science, research and technology, engineering, design, construction management, construction, operations and maintenance, and information technology.

We are a full-service company with a global reach in the areas of water programs, environmental management and remediation, energy and supporting infrastructure. We focus on both organic and acquisitive growth to expand our geographic reach, diversify our client base and increase the breadth and depth of our service offerings to address existing and emerging markets. As of June 2009, we had approximately 10,000 employees worldwide, located primarily in North America.

We derive revenue from fees for professional, technical, project management and construction 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 services to a diverse base of federal and state and local government agencies, as well as commercial and international clients. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by client sector:

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	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
<b>Client Sector</b>				
Federal government	45.8%	43.4%	45.4%	45.1%
State and local government	14.2	18.4	14.8	18.3
Commercial	28.8	37.2	32.9	35.7
International (1)	11.2	1.0	6.9	0.9
	100.0%	100.0%	100.0%	100.0%

(1) Includes revenue generated from our international clients. Revenue related to projects performed in foreign countries for U.S. government and U.S. commercial clients was reported as part of our federal government and commercial client sectors, respectively.

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In the first quarter of fiscal 2009, we began reporting under four new reportable segments with reclassification of the prior year segment results to conform to the new basis of presentation. Each of the new reportable segments is comprised of similar activities that focus on the services it provides, the markets it serves, the distribution method of its services, its contracting mechanisms, the organization and execution of its projects, the education and discipline of its workforce, and the metrics by which its client projects and staff are measured. In addition, each of our operating groups, which are also our reportable segments, is managed by its own president, who has responsibility for the segment's business units. Each president directly reports to our Chief Executive Officer, who is our CODM. The CODM regularly reviews the four reportable segments, allocates resources to these segments and assesses each segment's performance. The reportable segments are as follows:

*Environmental Consulting Services.* ECS provides front-end science and consulting services and project management skills in the areas of water resources, groundwater services, watershed management, mining and geotechnical sciences, environmental management, and information technology and modeling consulting.

*Technical Support Services.* TSS advises clients, studies, designs and implements projects, and conducts research in the areas of remedial and developmental planning, regulatory consulting, climate change and carbon management services, disaster management, systems test and support services, and program management for complex federal government and international development projects.

*Engineering and Architecture Services.* EAS provides engineering, architecture, interior and exterior design, LEED, and program administration services for projects that include water and wastewater conveyance and treatment, building construction, land development and transportation services.

*Remediation and Construction Management.* RCM provides a wide array of services, including program management, engineering, procurement and construction, construction management, and operations and maintenance focused on federal construction, environmental remediation including UXO and wetland restoration, energy projects including wind, nuclear engineering and other alternative energies, and communications development and construction.

The following table represents the approximate percentage of our revenue, net of subcontractor costs, by reportable segment:

Reportable Segment	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
ECS	34.0%	27.8%	30.9%	28.0%
TSS	22.5	22.5	23.1	22.9
EAS	15.9	19.8	18.0	21.6
RCM	27.6	29.9	28.0	27.5
	100.0%	100.0%	100.0%	100.0%

Our services are provided under three principal types of contracts: fixed-price, time-and-materials and cost-plus. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by contract type:

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	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
<b>Contract Type</b>				
Fixed-price	35.7%	41.1%	36.1%	37.4%
Time-and-materials	44.3	39.8	42.8	41.6
Cost-plus	20.0	19.1	21.1	21.0
	100.0%	100.0%	100.0%	100.0%

Contract revenue and contract costs are recorded primarily using the percentage-of-completion (cost-to-cost) method. Under this method, revenue is recognized in the ratio that contract costs incurred bear to total estimated costs. Revenue and profit on these contracts are subject to revision throughout the duration of the



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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.

In the course of providing our services, we routinely subcontract services and, under certain USAID programs, issue grants. Generally, these subcontractor costs and grants are passed through to our clients and, in accordance with industry practice and GAAP, are included in revenue when it is our responsibility to procure and manage these activities under a contract. The grants are reported as part of our Subcontractor costs on our condensed consolidated statements of income. Because subcontractor services can change significantly from project to project and from period to period, changes in revenue may not be indicative of our business trends. Accordingly, we also report revenue less the cost of subcontractor services, and our discussion and analysis of financial condition and results of operations uses revenue, net of subcontractor costs, as a point of reference.

For analytical purposes only, we categorize our revenue into two types: acquisitive and organic. Acquisitive revenue consists of revenue derived from newly acquired companies that are reported individually as separate operating units during the first 12 months following their respective acquisition dates. Organic revenue consists of our total revenue less any acquisitive revenue.

Our 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. In addition, we include the non-contract related portion of stock-based compensation, depreciation of property and equipment, and the full amount of amortization of identifiable intangible assets, in SG&A expenses. Most of these costs are unrelated to a specific client or project and can vary as expenses are incurred to support corporate activities and initiatives.

Our revenue, expenses and operating results may fluctuate significantly from quarter to quarter as a result of numerous factors, including:

- General economic or political conditions;
- Unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- Seasonality of the spending cycle of our public sector clients, notably the U.S. government, the spending patterns of our commercial sector clients, and weather conditions;
- Budget constraints experienced by our federal, state and local government clients;

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- Acquisitions or integration of acquired companies;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- The number and significance of client contracts commenced and completed during a quarter;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with a contract;
- The size, scope and payment terms of contracts;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;

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- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;
- The impairment of our goodwill or identifiable intangible assets; and
- Changes in accounting rules.

We experience seasonal trends in our business. Our revenue is typically lower in the first half of the 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. 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 result in higher billable hours. In addition, our revenue is typically higher in the fourth fiscal quarter due to the federal government's fiscal year-end spending.

**BUSINESS TREND ANALYSIS**

*General.* Overall, we continued to deliver strong financial results in the third quarter of fiscal 2009, which reflected improvement compared to the same quarter last year. Our performance was driven by our continuing focus on long-term value creation through the execution of our growth strategy. We invested in business development activities to grow our business organically and made strategic acquisitions to enhance our service offerings and further expand our geographical presence. In addition, we continued to implement and enforce project management policies and programs that focus on contract execution and risk management controls. We also focused on cost control and the strategic management of our portfolio of businesses.

Due to the general weakness in the economy, we anticipate that our revenue will grow moderately in fiscal 2009. In addition, we expect that the federal government's stimulus plan contained in the American Recovery and Reinvestment Act of 2009 (ARRA) should provide us with additional business opportunities. However, because the timing and magnitude of any potential benefit to our business from the ARRA are uncertain, contributions from the ARRA are not expected to be significant this fiscal year. Furthermore, we expect a continuing period of considerable weakness in the economy even if government stimulus efforts succeed. As such, we recognize that the current economic forces that have severely impacted both the domestic and international economies could affect our future work for the U.S. federal government, state and local government, and commercial and international businesses, which constituted approximately 56%, 12%, 25% and 7% of our revenue in the third quarter of fiscal 2009, respectively.

*Federal Government.* In the third quarter of fiscal 2009, our federal government business was flat compared to the same quarter last year. We experienced revenue growth driven by increased activity on our USAID, U.S. Department of Energy (DOE), Federal Aviation Administration

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and domestic U.S. Department of Defense ( DoD ) projects. To a lesser extent, our recent acquisitions contributed to our federal government business. However, the wind-down of our Iraq-related projects for the DoD offset the growth. During periods of economic volatility, our federal government business has historically been the most stable and predictable. Overall, our revenue from federal government projects is anticipated to increase modestly in fiscal 2009. However, we continue to experience some delays in existing and near-term projects due to the diversion of attention to ARRA project planning and contracting efforts at some federal contracting offices.

*State and Local Government.* In the third quarter of fiscal 2009, our state and local government business declined 24.8% compared to the same quarter last year. The revenue decline resulted primarily from the continuing difficult economic conditions. Many state and local government agencies are continuing to face challenging economic conditions, including budget deficits, declining tax revenues and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our state and local government programs are partially mitigated by the regulatory requirements driving some of these programs, such as regulatory-mandated consent decrees, as well as demographic shifts and increasing demand for water and wastewater services. As a result, some programs will generally progress despite budget pressures. However, due to the economic

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weakness across most states, we expect that our state and local government revenue will continue to decline in the fourth quarter of fiscal 2009.

*Commercial.* In the third quarter of fiscal 2009, our commercial business declined 14.4% compared to the same quarter last year. The revenue decline was attributable to project delays, cancellations and reduced workload in our real estate development, mining and industrial sectors as a result of current economic conditions. The decline was partially offset by demand for our wind and other alternative energy services, as well as water programs. Overall, we anticipate that our commercial business will experience revenue growth in fiscal 2009 compared to fiscal 2008 due to year-to-date growth over the prior year and our remaining backlog for wind, water, and environmental engineering and development programs. However, the anticipated growth may not be realized if planned alternative energy projects are delayed or cancelled due to declining energy prices or other reasons. Additionally, due to the current economic conditions, we will most likely continue to experience project delays and reduced profitability in our real estate development, mining and industrial sectors during the fourth quarter of fiscal 2009.

*International.* Our international business has expanded significantly through the acquisition of Wardrop. To a lesser extent, this growth was also driven by demand for our engineering design services overseas. As a result, we anticipate that our international business will continue to experience significant growth in fiscal 2009 compared to fiscal 2008. However, global economic weakness could result in lower revenue than anticipated if planned mining or energy projects are delayed or cancelled due to declining commodity and energy prices.

## 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 both privately held companies and subsidiaries of publicly held 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 both cash and 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. Because we typically acquire service businesses with limited tangible assets, our acquisitions generally result in recognition of goodwill and other identifiable intangible assets.

In the second quarter of fiscal 2009, we acquired Wardrop, a Canadian firm that specializes in resource management, energy and infrastructure design and is included in our ECS segment. This acquisition significantly expanded our worldwide presence, adding 13 offices throughout Canada and offices in the United Kingdom and India. During the first nine months of fiscal 2009, we made other acquisitions in the TSS segment that expanded our service offerings to USAID, in the ECS segment that broadened our energy services to the federal government, state and local government and commercial clients, and in the RCM segment that expanded our Base Realignment and Closure ( BRAC ) and military construction programs with the DoD.

## RESULTS OF OPERATIONS

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Overall, our results for the third quarter of fiscal 2009 improved compared to the same quarter last year due to our focus on organic growth and the strategic pursuit of acquisitions that enhance our service offerings and expand our geographical presence. Although our revenue declined slightly due to the wind-down of our Iraq-related projects, our revenue, net of subcontractor costs, grew 7.4% compared to the same quarter last year. The growth of our revenue, net of subcontractor costs, was driven by increased activity on BRAC, USAID and other federal government programs, which required a lower level of subcontracting activities compared to the Iraq-related projects. In addition, demand for our wind energy, water, and engineering and development services by our commercial clients fueled our growth, together with our recent acquisitions, particularly Wardrop.

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### Consolidated Results

	Three Months Ended					Nine Months Ended				
	June 28, 2009	June 29, 2008	Change \$	% (\$ in thousands)		June 28, 2009	June 29, 2008	Change \$	% (\$ in thousands)	
Revenue	\$ 551,376	\$ 564,277	\$ (12,901)	(2.3)%		\$ 1,712,364	\$ 1,496,050	\$ 216,314	14.5%	
Subcontractor costs	(194,449)	(232,008)	37,559	16.2		(693,197)	(599,269)	(93,928)	(15.7)	
Revenue, net of subcontractor costs	356,927	332,269	24,658	7.4		1,019,167	896,781	122,386	13.6	
Other contract costs	(282,258)	(266,379)	(15,879)	(6.0)		(813,835)	(716,874)	(96,961)	(13.5)	
Gross profit	74,669	65,890	8,779	13.3		205,332	179,907	25,425	14.1	
Selling, general and administrative expenses	(41,918)	(37,840)	(4,078)	(10.8)		(116,136)	(104,316)	(11,820)	(11.3)	
Income from operations	32,751	28,050	4,701	16.8		89,196	75,591	13,605	18.0	
Interest expense net	(473)	(483)	10	2.1		(2,240)	(2,600)	360	13.8	
Income before income tax expense	32,278	27,567	4,711	17.1		86,956	72,991	13,965	19.1	
Income tax expense	(1,267)	(11,432)	10,165	88.9		(20,423)	(30,283)	9,860	32.6	
Net income	\$ 31,011	\$ 16,135	\$ 14,876	92.2%		\$ 66,533	\$ 42,708	\$ 23,825	55.8%	

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

	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Revenue, net of subcontractor costs	100.0%	100.0%	100.0%	100.0
Other contract costs	(79.1)	(80.2)	(79.9)	(79.9)
Gross profit	20.9	19.8	20.1	20.1
Selling, general and administrative expenses	(11.7)	(11.4)	(11.4)	(11.6)
Income from operations	9.2	8.4	8.7	8.5
Interest expense net	(0.1)	(0.1)	(0.2)	(0.3)
Income before income tax expense	9.1	8.3	8.5	8.2
Income tax expense	(0.4)	(3.4)	(2.0)	(3.4)
Net income	8.7%	4.9%	6.5%	4.8%

For the three and nine months ended June 28, 2009, revenue decreased \$12.9 million, or 2.3%, and increased \$216.3 million, or 14.5%, compared to the same periods last year, respectively. For the three-month period, our revenue declined due to the wind-down of our Iraq-related projects with the DoD, completion of several large contracts, funding and contract delays, and cancellations by certain commercial, and state and local government clients. The decline was largely offset by demand for our wind energy, water, and engineering and development services by our commercial clients, and for BRAC and USAID services by our federal government clients. Our recent acquisitions also contributed revenue, particularly from Wardrop in our international business. For the nine-month period, we experienced revenue growth in our commercial business due to demand for our wind energy, water, and engineering and development services, our international business resulting from the Wardrop acquisition, and our federal government business primarily driven by increased activity on BRAC and USAID, partially offset by the wind-down of Iraq-related projects. To a lesser extent, the overall growth was partially offset by revenue declines in our state and local government business due to budget and spending constraints, and the completion of several large contracts.

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For the three and nine months ended June 28, 2009, revenue, net of subcontractor costs, increased \$24.7 million, or 7.4%, and \$122.4 million, or 13.6%, compared to the same periods last year, respectively, for the reasons described above. For the three-month period, the increases deviated from the revenue trend due to contract mix since subcontractor services can change significantly from project to project and from period to period. More specifically, we experienced a decline in subcontracting activity due to the wind-down of Iraq-related contracts, which were subcontracted in large part to local Iraqis. Overall, our subcontracting activities remained high for the three and nine-month periods due to wind energy, BRAC and certain water programs. Further, our program



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management activities on federal government contracts typically result in higher levels of subcontracting activities that are partially driven by government-mandated small business set-aside requirements.

For the three and nine months ended June 28, 2009, other contract costs increased \$15.9 million, or 6.0%, and \$97.0 million, or 13.5%, compared to the same periods last year, respectively. For the most part, the cost increase tracked to our increase in revenue, net of subcontractor costs. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs were 79.1% and 79.9%, compared to 80.2% and 79.9% for the same periods last year, respectively.

For the three and nine months ended June 28, 2009, gross profit increased \$8.8 million, or 13.3%, and \$25.4 million, or 14.1%, compared to the same periods last year, respectively, for the reasons described above. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 20.9% and 20.1%, compared to 19.8% and 20.1% for the same periods last year, respectively. For the three-month period, the percentage increase was driven by favorable contract adjustments and contract performance on a few large fixed-price contracts related to wind energy, water, and engineering and development projects, partially offset by provisions for losses on certain accounts receivable from commercial clients. For the nine-month period, the favorable contract adjustments and higher profit margins were offset by increased costs during the first half of fiscal 2009 on an alternative energy program, regulatory and project delays, subcontractor issues, and provisions for losses on certain accounts receivable from commercial clients.

For the three and nine months ended June 28, 2009, SG&A expenses increased \$4.1 million, or 10.8%, and \$11.8 million, or 11.3%, compared to the same periods last year, respectively. The increase resulted from our business growth, including the additional amortization expense of intangible assets related to our recent acquisitions and higher business development activities. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, SG&A expenses were 11.7% and 11.4%, compared to 11.4% and 11.6% for the same periods last year, respectively.

For the three and nine months ended June 28, 2009, net interest expense decreased \$0.01 million, or 2.1%, and \$0.4 million, or 13.8%, compared to the same periods last year, respectively. The decrease resulted from lower interest expense on our borrowings due to lower interest rates, partially offset by lower interest income from short-term cash investments also due to lower interest rates.

For the three and nine months ended June 28, 2009, income tax expense decreased \$10.2 million, or 88.9%, and \$9.9 million, or 32.6%, compared to the same periods last year, respectively. Our effective tax rates were 23.5% and 41.5% for the first nine months of fiscal years 2009 and 2008, respectively. The lower effective tax rate resulted primarily from a tax settlement with the IRS and recognition of previously unclaimed R&E credits based on completed studies and analyses.

*Additional Information by Reportable Segment*

*Environmental Consulting Services*

**Three Months Ended**

**Nine Months Ended**

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	June 28, 2009	June 29, 2008	Change		June 28, 2009	June 29, 2008	Change	
			\$	%			\$	%
					(\$ in thousands)			
Revenue, net of subcontractor costs	\$ 121,212	\$ 92,307	\$ 28,905	31.3%	\$ 315,079	\$ 251,405	\$ 63,674	25.3%
Other contract costs	(97,336)	(73,480)	(23,856)	(32.5)	(257,247)	(202,945)	(54,302)	(26.8)
Gross profit	\$ 23,876	\$ 18,827	\$ 5,049	26.8%	\$ 57,832	\$ 48,460	\$ 9,372	19.3%

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 28, 2009</b>	<b>June 29, 2008</b>	<b>June 28, 2009</b>	<b>June 29, 2008</b>
Revenue, net of subcontractor costs	100.0%	100.0%	100.0%	100.0%
Other contract costs	(80.3)	(79.6)	(81.6)	(80.7)
Gross profit	19.7%	20.4%	18.4%	19.3%

For the three and nine months ended June 28, 2009, revenue, net of subcontractor costs, increased \$28.9 million, or 31.3%, and \$63.7 million, or 25.3%, compared to the same periods last year, respectively. For both periods, the growth was primarily driven by our strategic acquisitions, particularly Wardrop in the international area. This segment also experienced organic growth in the federal, and state and local government businesses. Further, increased workload on a large environmental engineering and development project for a commercial client contributed to the growth. However, this segment's commercial business declined on an overall basis due to reduced demand for geotechnical and mining services.

For the three and nine months ended June 28, 2009, other contract costs increased \$23.9 million, or 32.5%, and \$54.3 million, or 26.8%, compared to the same periods last year, respectively. For both periods, the dollar increases resulted largely from additional costs incurred to support the growth in revenue, net of subcontractor costs. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs increased to 80.3% from 79.6%, and 81.6% from 80.7% for the same periods last year, respectively. The percentage increases resulted from the aforementioned revenue declines, and increased costs during the first half of fiscal 2009 on certain fixed-price projects caused by inclement weather, regulatory delays and subcontractor issues.

For the three and nine months ended June 28, 2009, gross profit increased \$5.0 million, or 26.8%, and \$9.4 million, or 19.3%, compared to the same periods last year for the reasons described above. In addition, gross profit rates on our commercial work decreased due to the economic slowdown, partially offset by improved project performance on a large environmental engineering and development project. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, gross profit decreased to 19.7% from 20.4%, and 18.4% from 19.3% for the same periods last year, respectively.

## *Technical Support Services*

	<b>June 28, 2009</b>	<b>Three Months Ended</b>		<b>Change</b>		<b>June 28, 2009</b>	<b>Nine Months Ended</b>		<b>Change</b>	
		<b>June 29, 2008</b>	<b>\$</b>	<b>%</b>			<b>June 29, 2008</b>	<b>\$</b>	<b>%</b>	
					<b>(\$ in thousands)</b>					
Revenue, net of subcontractor costs	\$ 80,315	\$ 74,812	\$ 5,503	7.4%		\$ 235,354	\$ 205,282	\$ 30,072	14.6%	
Other contract costs	(64,563)	(61,090)	(3,473)	(5.7)		(188,479)	(167,545)	(20,934)	(12.5)	
Gross profit	\$ 15,752	\$ 13,722	\$ 2,030	14.8%		\$ 46,875	\$ 37,737	\$ 9,138	24.2%	

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

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	Three Months Ended		Nine Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Revenue, net of subcontractor costs	100.0%	100.0%	100.0%	100.0%
Other contract costs	(80.4)	(81.7)	(80.1)	(81.6)
Gross profit	19.6%	18.3%	19.9%	18.4%

For the three and nine months ended June 28, 2009, revenue, net of subcontractor costs, increased \$5.5 million, or 7.4%, and \$30.1 million, or 14.6%, compared to the same periods last year, respectively. For both periods, the growth was driven by our acquisitions, and increased workload with the DoD and other federal

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clients. This growth was partially offset by a revenue decline in our commercial business. For the nine-month period, we also experienced increased demand from USAID for our international development services.

For the three and nine months ended June 28, 2009, other contract costs increased \$3.5 million, or 5.7%, and \$20.9 million, or 12.5%, compared to the same periods last year, respectively. For both periods, the increases resulted largely from additional costs incurred to support revenue growth. However, for the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs decreased to 80.4% from 81.7%, and 80.1% from 81.6% for the same periods last year, respectively. The percentage decreases resulted from improved project performance on certain fixed-price contracts and our focus on overhead cost control on discretionary expenses.

For the three and nine months ended June 28, 2009, gross profit increased \$2.0 million, or 14.8%, and \$9.1 million, or 24.2%, compared to the same quarter last year for the reasons described above. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, gross profit increased to 19.6% from 18.3%, and 19.9% from 18.4% for the same periods last year, respectively.

## Engineering and Architecture Services

	June 28, 2009	Three Months Ended June 29, 2008	Change \$	% (\$ in thousands)	June 28, 2009	Nine Months Ended June 29, 2008	Change \$	%
Revenue, net of subcontractor costs	\$ 56,895	\$ 65,727	\$ (8,832)	(13.4)%	\$ 183,339	\$ 193,336	\$ (9,997)	(5.2)%
Other contract costs	(45,156)	(52,471)	7,315	13.9	(145,842)	(154,714)	8,872	5.7
Gross profit	\$ 11,739	\$ 13,256	\$ (1,517)	(11.4)%	\$ 37,497	\$ 38,622	\$ (1,125)	(2.9)%

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

	Three Months Ended June 28, 2009	June 29, 2008	Nine Months Ended June 28, 2009	June 29, 2008
Revenue, net of subcontractor costs	100.0%	100.0%	100.0%	100.0%
Other contract costs	(79.4)	(79.8)	(79.5)	(80.0)
Gross profit	20.6%	20.2%	20.5%	20.0%

For the three and nine months ended June 28, 2009, revenue, net of subcontractor costs, decreased \$8.8 million, or 13.4%, and \$10.0 million, or 5.2%, compared to the same periods last year, respectively. For both periods, this segment experienced a revenue decline in the commercial business due to the slowdown in the real estate development and industrial markets. In addition, revenue from state and local government clients decreased due to budget and spending constraints. These declines were partially mitigated by our acquisitions in late fiscal 2008, demand for our engineering design services overseas from our international clients and increased project activity with the DoD.

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For the three and nine months ended June 28, 2009, other contract costs decreased \$7.3 million, or 13.9%, and \$8.9 million, or 5.7%, compared to the same periods last year, respectively. For both periods, the decreases resulted primarily from reduced overhead, labor and other employee-related expenses, which corresponded to the aforementioned revenue declines. These cost decreases were partially offset by higher loss provisions and accounts receivable allowances on certain commercial projects due to the continuing economic slowdown. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs decreased slightly to 79.4% from 79.8%, and to 79.5% from 80.0% for the same periods last year, respectively.

For the three and nine months ended June 28, 2009, gross profit decreased \$1.5 million, or 11.4%, and \$1.1 million, or 2.9%, compared to the same periods last year, respectively, for the reasons described above. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, gross profit increased slightly to 20.6% from 20.2%, and 20.5% from 20.0% for the same periods last year, respectively. Although our revenue declined, our gross profit percentages increased slightly due to overhead cost control.

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	June 28, 2009	Three Months Ended June 29, 2008	Change \$	% (\$ in thousands)	June 28, 2009	Nine Months Ended June 29, 2008	Change \$	%
Revenue, net of subcontractor costs	\$ 98,505	\$ 99,423	\$ (918)	(0.9)%	\$ 285,395	\$ 246,758	\$ 38,637	15.7%
Other contract costs	(75,203)	(79,338)	4,135	5.2	(222,267)	(191,670)	(30,597)	(16.0)
Gross profit	\$ 23,302	\$ 20,085	\$ 3,217	16.0%	\$ 63,128	\$ 55,088	\$ 8,040	14.6%

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

	Three Months Ended June 28, 2009	June 29, 2008	Nine Months Ended June 28, 2009	June 29, 2008
Revenue, net of subcontractor costs	100.0%	100.0%	100.0%	100.0%
Other contract costs	(76.3)	(79.8)	(77.9)	(77.7)
Gross profit	23.7%	20.2%	22.1%	22.3%

For the three and nine months ended June 28, 2009, revenue, net of subcontractor costs, decreased \$0.9 million, or 0.9%, and increased \$38.6 million, or 15.7%, compared to the same periods last year, respectively. For the three-month period, the slight revenue decline resulted from the continuing wind-down of Iraq-related projects and the completion of several large state and local government projects. The decline was largely offset by increased workload on wind energy and water contracts for our commercial clients and BRAC programs for the DoD. For the nine-month period, this segment experienced strong growth in the commercial business, which was driven by demand for wind energy and water services. In addition, the federal government business grew due to increased activity on BRAC and DOE programs that largely offset the wind-down of Iraq-related projects and the completion of several large state and local government projects.

For the three and nine months ended June 28, 2009, other contract costs decreased \$4.1 million, or 5.2%, and increased \$30.6 million, or 16.0%, compared to the same periods last year, respectively. For the most part, the changes largely corresponded to the trends in revenue, net of subcontractor costs. For the three-month period, this segment experienced reduced activity related to the procurement of materials and supplies for construction projects. For the nine-month period, additional costs related to an alternative energy program, and additional contract costs caused by inclement weather, subcontractor issues and scheduling delays, were recognized. Further, in the first half of fiscal 2008, we recognized one-time gains related to project equipment disposals following certain contract close-outs. As a result, for the three and nine months ended June 28, 2009, other contract costs, as a percentage of revenue, net of subcontractor costs, decreased to 76.3% from 79.8%, and increased slightly to 77.9% from 77.7% for the same periods last year, respectively.

For the three and nine months ended June 28, 2009, gross profit increased \$3.2 million, or 16.0%, and \$8.0 million, or 14.6%, compared to the same periods last year, respectively. For the three and nine months ended June 28, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 23.7% and 22.1%, compared to 20.2% and 22.3% for the same periods last year, respectively. For both periods, the aforementioned cost increases were partially mitigated by favorable claim settlements on our Iraq-related projects and higher margins on certain commercial wind energy and water projects. Additionally, for the three-month period, the gross profit rate increased as a result of a favorable final contract close-out resulting from improved performance on a commercial fixed-price contract.

## **Liquidity and Capital Resources**

The following discussion generally reflects the impact of both continuing and discontinued operations unless otherwise noted.

*Capital Requirements.* Our capital requirements are to fund working capital needs, capital expenditures, and debt services requirements, as well as to fund acquisitions. It is anticipated that operating cash flow, together



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with available borrowings under the credit agreement described below, will be sufficient to meet our capital requirements for the next 12 months.

*Working Capital.* Our working capital was approximately \$232 million for both periods ended June 28, 2009 and September 28, 2008. As of June 28, 2009, our cash and cash equivalents decreased \$2.6 million, or 5.2%, compared to last fiscal year-end.

*Operating Activities.* For the first nine months of fiscal 2009, our net cash provided by operating activities was \$107.4 million, an increase of \$64.3 million, or 149.3%, compared to the same period last year. The increase resulted from substantial cash collections on certain large fixed-price contracts, an IRS tax settlement refund and higher net income. The overall increase was partially offset by payments related to subcontractor accruals and year-end employee compensation, and the reduced liability related to advance payments received on contract work as a result of contract execution.

*Investing Activities.* For the first nine months of fiscal 2009, our net cash used in investing activities was \$115.6 million, an increase of \$48.0 million, or 71.0%, compared to the same period last year. In fiscal 2009, we used more cash to pay for business acquisitions, particularly Wardrop. For the first nine months of fiscal 2009, our capital expenditures were \$13.3 million, a decrease of \$0.5 million, or 3.7%, compared to the same period last year. New equipment was purchased to replace obsolete equipment and satisfy requirements for project execution.

*Financing Activities.* For the first nine months of fiscal 2009, our net cash provided by financing activities was \$4.7 million, an increase of \$7.6 million, or 266.0%, compared to \$2.9 million net cash used in financing activities for the same period last year.

*Debt Financing.* In March 2007, we entered into an Amended and Restated Credit Agreement ( *Credit Agreement* ). Under the Credit Agreement, our revolving credit facility ( *Facility* ) was increased from \$150.0 million to \$300.0 million, and the term of the agreement was extended for five years through March 30, 2012. As part of the Facility, we may request financial letters of credit up to an aggregate sum of \$50.0 million and standby letters of credit up to the full amount of the Facility. Other than the increased capacity under the Facility and improved pricing rate structure, the terms and conditions relating to the Facility are substantially similar to those of the prior Facility. In May 2008 and January 2009, we entered into amendments to the Credit Agreement solely to provide additional flexibility and to clarify certain administrative matters with respect to potential future acquisitions. There was no change to the overall size of the Facility. As of June 28, 2009, we had \$42.0 million in outstanding borrowings, \$17.3 million in standby letters of credit and \$240.8 million in availability under the Facility.

The Credit Agreement requires us to comply with various financial and operating covenants. Specifically, (i) the maximum consolidated leverage ratio (defined as the ratio of funded debt to rolling four-quarter adjusted earnings before interest, tax, depreciation and amortization ( *EBITDA* )) is 2.5x for each quarter, and (ii) the minimum fixed charge coverage ratio (defined as the ratio of rolling four-quarter EBITDA minus capital expenditures to interest expense plus taxes and principal payments) is 1.25x for each quarter. As of June 28, 2009, our consolidated leverage ratio was 0.52x, and our fixed charge coverage ratio was 2.85x. Further, the Credit Agreement contains other restrictions, including but not limited to, the creation of liens and the payment of dividends on our capital stock (other than stock dividends). Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our significant subsidiaries and our cash, deposit accounts, investment property and financial assets. As of June 28, 2009, we met all compliance requirements, and we expect to be in compliance over the next 12 months.

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*Inflation.* We believe our operations have not been, and, in the foreseeable future, are not expected to be, materially adversely affected by inflation or changing prices due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin. However, the current weak general economic conditions may impact our client base, our clients' creditworthiness and our ability to collect cash to meet our operating needs.

*Tax Claims.* We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the FTB for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. We have completed studies and analyses for the

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tax years subsequent to fiscal 2004 and are in the process of filing amended returns to claim federal and state R&E Credits for certain years. There is a high probability that the claims will be examined by taxing authorities. If the resolution of these pending and anticipated examinations is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made.

**Critical Accounting Policies**

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2008. To date, there have been no material changes in our critical accounting policies as reported in our 2008 Annual Report on Form 10-K.

**New Accounting Pronouncements**

For information regarding recent accounting pronouncements, see Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report.

**Financial Market Risks**

We currently utilize no derivative financial instruments that expose us to significant market risk. We are exposed to interest rate risk under our Credit Agreement. We may borrow on our Facility, at our option, at either (a) a base rate (the greater of the U.S. federal funds rate plus 0.50% per annum or the bank's reference rate) plus a margin which ranges from 0.0% to 1.25% per annum, or (b) a Eurodollar rate plus a margin that ranges from 1.0% to 2.25% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility's maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on March 30, 2012 or earlier at our discretion upon payment in full of loans and other obligations.

We anticipate repaying \$6.3 million of our outstanding indebtedness in the next 12 months, of which \$2.3 million relates to the guaranteed earn-out payment associated with certain acquisitions and \$4.0 million relates to other debt. Assuming we do repay the remaining \$4.0 million ratably during the next 12 months and hold \$42.0 million in borrowing under the Facility for the next 12 months, our annual interest expense would increase or decrease by \$0.4 million when our average interest rate increases or decreases by 1% per annum. There can be no assurance that we will, or will be able to, repay our debt in the prescribed manner. In addition, we could incur additional debt under the Facility to meet our operating needs or to finance future acquisitions.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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Please refer to the information we have included under the heading "Financial Market Risks" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

### Item 4. Controls and Procedures

**Evaluation of disclosure controls and procedures and changes in internal control over financial reporting.** As of June 28, 2009, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), were effective.

**Changes in internal control over financial reporting.** There was no change in our internal control over financial reporting during our third quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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 on our financial position, results of operations or cash flows, management acknowledges the uncertainty surrounding the ultimate resolution of these matters.

In May 2003, ITC filed a lawsuit in Montgomery County, Ohio against AMT and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded \$5.8 million in compensatory damages against AMT. In addition, the jury awarded \$17 million in punitive damages against AMT plus reasonable attorneys fees. The court required AMT to post a \$1 million bond which has been done. In July 2008, the Common Pleas Court of Montgomery County denied AMT's motion for judgment notwithstanding the verdict and conditionally denied AMT's motion for a new trial. Further, the court remitted the verdict to \$2.0 million in compensatory damages and \$5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC's motion for prejudgment interest and attorneys' fees. The trial court has not yet ruled on ITC's motion. We expect that appeals will follow the court's ruling. We believe that a reasonably possible range of exposure, including our attorneys' fees, is from \$0 to approximately \$14.5 million. As of June 28, 2009, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

In the fourth quarter of fiscal 2008, a REIT that owns and rents apartments filed suit against us and a former employee in the United States District Court for the Eastern District of Virginia. The suit alleged that employees at one of our operating divisions in Colorado participated in a scheme to defraud the REIT in connection with contracts for environmental clean-up work between us and the REIT. On March 30, 2009, the parties definitively settled their dispute and agreed that their claims against each other will be dismissed. The impact to our results of operations for the three and nine months ended June 28, 2009 was not material.

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**Item 1A. Risk Factors**

*Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.*

**Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address**

General worldwide economic conditions have recently experienced a downturn due to the lack of available credit, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities and could cause businesses to slow spending on services. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery worldwide or in our industry. If the economy or markets in which we operate do not continue at the level experienced in fiscal 2008, our business, financial condition and results of operations may be materially and adversely affected.

**Our annual revenue, expenses and operating results may fluctuate significantly**

Our annual revenue, expenses and operating results may fluctuate significantly because of numerous factors, including:

- General economic or political conditions;
- Unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- Seasonality of the spending cycle of our public sector clients, notably the U.S. government, the spending patterns of our commercial sector clients, and weather conditions;
- Budget constraints experienced by our federal, state and local government clients;

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- Acquisitions or the integration of acquired companies;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- The number and significance of client contracts commenced and completed during a quarter;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with a contract;
- The size, scope and payment terms of contracts;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;
- The impairment of goodwill or identifiable intangible assets; and

- Changes in accounting rules.

Variations in any of these factors could cause significant fluctuations in our operating results from period to period, result in a net loss, and could have a negative effect on our stock price.



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**Demand for our state and local government services is cyclical and vulnerable to economic downturns; if the economy weakens, then our revenues, profits and our financial condition may deteriorate**

Demand for our state and local government services is cyclical and vulnerable to economic downturns, which may result in clients delaying, curtailing or canceling proposed and existing projects. Our business traditionally lags the overall recovery in the economy; therefore, our business may not recover immediately when the economy improves. If the economy weakens, then our revenues, profits and overall financial condition may deteriorate. Our state and local government clients may face budget deficits that prohibit them from funding new or existing projects. In addition, our existing and potential clients may either postpone entering into new contracts or request price concessions. Difficult financing and economic conditions may cause some of our clients to demand better pricing terms or delay payments for services we perform, thereby increasing the average number of days our receivables are outstanding. Further, these conditions may result in the inability of some of our clients to pay us for services that we have already performed. If we are not able to reduce our costs quickly enough to respond to the revenue decline from these clients, our operating results may be adversely affected. Accordingly, these factors affect our ability to forecast our future revenues and earnings from business areas that may be adversely impacted by market conditions.

**We derive a majority of our revenue from government agencies, and any disruption in government funding or in our relationship with those agencies could adversely affect our business**

In the third quarter of fiscal 2009, we generated 60.0% of our revenue, net of subcontractor costs, from contracts with federal, state and local government agencies. U.S. federal government agencies are among our most significant clients. We generated 45.8% of our revenue, net of subcontractor costs, in the third quarter of 2009 from the following agencies: 25.3% from the DoD, 9.2% from USAID and 11.3% from other U.S. federal agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

The demand for our government-related services is generally driven by the level of government program funding. Accordingly, the success and further development of our business depends, in large part, upon the continued funding of these government programs, and upon our ability to obtain contracts and perform well under these programs. There are several factors that could materially affect our government contracting business, including the following:

- Changes in and delays or cancellations of government programs, requirements or appropriations;
- Budget constraints or policy changes resulting in delay or curtailment of expenditures related to the services we provide;
- Re-competes of government contracts;

- The timing and amount of tax revenue received by federal, state and local governments, and the overall level of government expenditures;
- Curtailment of the use of government contracting firms;
- Delays associated with a lack of a sufficient number of government staff to oversee contracts;
- The increasing preference by government agencies for contracting with small and disadvantaged businesses;
- Competing political priorities and changes in the political climate with regard to the funding or operation of the services we provide;
- The adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;
- Unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits, or other events that may impair our relationship with the federal, state or local governments;
- A dispute with or improper activity by any of our subcontractors; and

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- General economic or political conditions.

These and other factors could cause government agencies to delay or cancel programs, to reduce their orders under existing contracts, to exercise their rights to terminate contracts or not to exercise contract options for renewals or extensions. Any of these actions could have a material adverse effect on our revenue or timing of contract payments from these agencies.

**A significant shift in U.S. defense spending could harm our operations and significantly reduce our future revenues**

Revenue under contracts with the DoD represented 25.3% of our revenue, net of subcontractor costs, in the third quarter of fiscal 2009. In the third quarter of fiscal 2009, we experienced a revenue decline for project management reconstruction and UXO services in Iraq compared to the same period last year. While spending authorization for defense-related programs has increased significantly in recent years due to greater homeland security and foreign military commitments, as well as the trend to outsource U.S. federal government jobs to the private sector, these spending levels may not be sustainable, particularly with the Iraq-related work. For example, the DoD budget declined in the late 1980s and the early 1990s, resulting in DoD program delays and cancellations. Future levels of expenditures and authorizations for these programs may decrease, remain constant or shift to other programs in areas in which we do not currently provide service. As a result, a general decline in U.S. defense spending or a change in budgetary priorities could harm our operations and significantly reduce our future revenues.

**A delay in the completion of the budget process of the U.S. government could delay procurement of our services and have an adverse effect on our future revenues**

When the U.S. government does not complete its budget process before its fiscal year-end on September 30, government operations are typically funded by means of a continuing resolution that authorizes agencies of the U.S. government to continue to operate, but does not authorize new spending initiatives. When the U.S. government operates under a continuing resolution, government agencies may delay the procurement of services, which could reduce our future revenues.

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

We must comply with and are affected by federal, state, local and foreign laws and regulations relating to the formation, administration and performance of government contracts. For example, we must comply with Federal Acquisition Regulations ( FAR ), the Truth in Negotiations Act, Cost Accounting Standards ( CAS ) and DoD security regulations, as well as many other rules and regulations. These laws and regulations affect how we do business with our clients and, in some instances, impose additional costs on our business operations. Although we take precautions to prevent and deter fraud, misconduct and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud or other improper activities. Government agencies, such as the Defense Contract Audit Agency ( DCAA ), routinely audit and investigate government contractors. These government agencies review and audit a government contractor's performance under its contracts and cost structure, and compliance with applicable laws, regulations and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs. If the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for FAR or CAS, the DCAA auditor may recommend our U.S. government corporate administrative contracting officer to disallow such costs.

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Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowance for incurred costs in the future. Government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation.

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

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Government contracts are awarded through a regulated procurement process. The U.S. federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery/indefinite quantity ( IDIQ ) contracts, which generally require those contractors who have previously been awarded the IDIQ to engage in an additional competitive bidding process before a task order is issued. The increased competition, in turn, may require us to make sustained efforts to reduce costs in order to realize revenues and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

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

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

**Our failure to properly manage projects may result in additional costs or claims**

Our engagements often involve large-scale, complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients and our ability to effectively manage the project and deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. If we miscalculate the resources or time we need to complete a project with capped or fixed fees, or the resources or time we need to meet contractual milestones, our operating results could be adversely affected. Further, any defects or errors, or failures to meet our clients' expectations, could result in claims for damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, errors, mistakes or omissions in rendering services to our clients. However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued. Prior to fiscal 2006, we experienced significant project cost overruns on the performance of fixed-price construction work, other than that associated with our U.S. federal government projects. Although we have implemented procedures intended to address these issues, no assurance can be given that we will not experience project management issues in the future.

**The loss of key personnel or our inability to attract and retain qualified personnel could significantly disrupt our business**

As primarily a professional and technical services company, we are labor-intensive and therefore our ability to attract, retain and expand our senior management and our professional and technical staff is an important factor in determining our future success. With limited exceptions, we do not have employment agreements with any of these individuals. The loss of the services of any of these key personnel could adversely affect our business. Although we have obtained non-compete agreements from certain principals and stockholders of companies we have acquired, we generally do not have non-compete or employment agreements with key employees who were once equity holders of these companies. Further, many of our non-compete agreements have expired. We do not maintain key-man life insurance policies on any of our executive officers or senior managers.

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The market for the qualified scientists and engineers is competitive and we may not be able to attract and retain such professionals. In addition, it may be difficult to attract and retain qualified individuals with the expertise and in the timeframe demanded by our clients. For example, some of our government contracts may require us to employ only individuals who have particular government security clearance levels. In an effort to attract key employees, we often grant them stock options, and a reduction in our stock price could impact our ability to retain these professionals.

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

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

- The application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders and contract claims;
- Provisions for uncollectible receivables and customer claims and recoveries of costs from subcontractors, vendors and others;
- Provisions for income taxes and related valuation allowances;
- Value of goodwill and recoverability of other intangible assets;
- Valuations of assets acquired and liabilities assumed in connection with business combinations;
- Valuation of employee benefit plans;
- Valuation of stock-based compensation expense; and
- Accruals for estimated liabilities, including litigation and insurance reserves.

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

**Our use of the percentage-of-completion method of accounting could result in reduction or reversal of previously recorded revenue and profits**

We account for most of our contracts on the percentage-of-completion method of accounting. Generally, our use of this method results in recognition of revenue and profit ratably over the life of the contract, based on the proportion of costs incurred to date to total costs expected to

be incurred for the entire project. The effect of revisions to revenue and estimated costs, including the achievement of award and other fees, is recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. The uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenue and profit.

**Our business and operating results could be adversely affected by our inability to accurately estimate the overall risks, revenue or costs on a contract**

We generally enter into three principal types of contracts with our clients: fixed-price, time-and-materials and cost-plus. Under our fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. These risks include underestimation of costs, problems with new technologies, unforeseen costs or difficulties, delays beyond our control, price increases for materials, and economic and other changes that may occur during the contract period. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts. Under our 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. If our costs exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all such costs.

Accounting for a contract requires judgments relative to assessing the contract's estimated risks, revenue, costs and other technical issues. Due to the size and nature of many of our contracts, the estimation of overall risk, revenue and cost at completion is complicated and subject to many variables. Changes in underlying assumptions, circumstances or estimates may also adversely affect future period financial performance. If we are unable to



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accurately estimate the overall revenue or costs on a contract, then we may experience a lower profit or incur a loss on the contract.

**Our failure to win new contracts and renew existing contracts with private and public sector clients could adversely affect our profitability**

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

**There are risks associated with our acquisition strategy that could adversely impact our business and operating results**

A key part of our growth strategy is to acquire other companies that complement our lines of business or that broaden our technical capabilities and geographic presence. We expect to continue to acquire companies as an element of our growth strategy; however, our ability to make acquisitions is restricted under our credit agreement. Acquisitions involve certain known and unknown risks that could cause our actual growth or operating results to differ from our expectations or the expectations of securities analysts. For example:

- We may not be able to identify suitable acquisition candidates or to acquire additional companies on acceptable terms;
- We are pursuing international acquisitions, which inherently pose more risk than domestic acquisitions;
- We compete with others to acquire companies which may result in decreased availability of, or increased price for, suitable acquisition candidates;
- We may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;
- We may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company;

- We may not be able to retain key employees of an acquired company which could negatively impact that company's future performance;
- We may fail to successfully integrate or manage these acquired companies due to differences in business backgrounds or corporate cultures;
- If we fail to successfully integrate any acquired company, our reputation could be damaged. This could make it more difficult to market our services or to acquire additional companies in the future; and
- Acquired companies may not perform as we expect and we may fail to realize anticipated revenue and profits.

In addition, our acquisition strategy may divert management's attention away from our existing businesses, result in the loss of key clients or key employees, and expose us to unanticipated problems or legal liabilities, including responsibility as a successor-in-interest for undisclosed or contingent liabilities of acquired businesses or assets.

Further, acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders' ownership percentage;
- Assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;
- Record goodwill that will be subject to impairment testing and potential impairment charges;

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- Incur amortization expenses related to certain intangible assets;
- Lose existing or potential contracts as a result of conflict of interest issues;
- Incur large and immediate write-offs; or
- Become subject to litigation.

Finally, acquired companies that derive a significant portion of their revenue from the U.S. federal government and that do not follow the same cost accounting policies and billing practices that we follow may be subject to larger cost disallowances for greater periods than we typically encounter. If we fail to determine the existence of unallowable costs and do not establish appropriate reserves in advance of an acquisition, we may be exposed to material unanticipated liabilities, which could have a material adverse effect on our business.

**If our goodwill or other intangible assets become impaired, then our profits may be significantly reduced**

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. As of June 28, 2009, our goodwill was \$310.2 million and other intangible assets were \$30.1 million. We are required to perform a goodwill and intangible asset impairment test for potential impairment at least on an annual basis. This process requires us to make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations, as well as the interpretation of current economic indicators and market valuations. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired and an impairment charge could result in a material adverse effect on our financial position or results of operations.

**If we are not able to successfully manage our growth strategy, our business and results of operations may be adversely affected**

Our expected future growth presents numerous managerial, administrative, operational and other challenges. Our ability to manage the growth of our operations will require us to continue to improve our management information systems and our other internal systems and controls. In addition, our growth will increase our need to attract, develop, motivate and retain both our management and professional employees. The inability of our management to effectively manage our growth or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

**Adverse resolution of an IRS or other tax authority examination process may harm our financial results**

We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the FTB for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. We have completed studies and analyses for the tax years subsequent to fiscal 2004 and are in the process of filing amended returns to claim federal and state R&E Credits for certain years. There is a high probability that the claims will be examined by taxing authorities. If the resolution of these pending and anticipated examinations is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made.

**Our backlog is subject to cancellation and unexpected adjustments, and is an uncertain indicator of future operating results**

Our backlog as of June 28, 2009 was \$1.7 billion. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal government and other clients are terminable at the discretion of the client with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.

**Our international operations expose us to risks such as different business cultures, laws and regulations**

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During the third quarter of fiscal 2009, we generated 11.2% of our revenue, net of subcontractor costs, from international clients. The different business cultures associated with international operations may not be fully appreciated before we sign an agreement, and thereby expose us to risk. Likewise, prior to signing a contract, we need to understand international laws and regulations, such as foreign tax and labor laws, and U.S. laws and regulations applicable to companies engaging in business outside of the United States, such as the Foreign Corrupt Practices Act. For these reasons, pricing and executing international contracts is more difficult and carries more risk than pricing and executing domestic contracts. Our experience has also shown that it is typically more difficult to collect on international work that has been performed and billed.

**Our international operations expose us to foreign currency risk**

A majority of our transactions are in U.S. dollars; however, a few foreign subsidiaries conduct businesses in various foreign currencies. Therefore, we are subject to currency exposures and volatility because of currency fluctuations, inflation changes and economic conditions in these countries. We currently have no foreign currency hedges. We attempt to minimize our exposure to foreign currency fluctuations by matching our revenues and expenses in the same currency for our contracts. For the three months ended June 28, 2009 and June 29, 2008, we had \$6.7 million of foreign currency translation gain, net of tax, and \$0.1 million of foreign currency translation loss, net of tax, respectively. For the nine months ended June 28, 2009 and June 29, 2008, we had \$7.0 million of foreign currency translation gain, net of tax, and \$0.1 million of foreign currency translation loss, net of tax, respectively.

**If our business partners fail to perform their contractual obligations on a project, we could be exposed to legal liability, loss of reputation and profit reduction or loss on the project**

We routinely enter into subcontracts and, occasionally, teaming arrangements and other contractual arrangements so that we can jointly bid and perform on a particular project. Success under these arrangements depends in large part on whether our business partners fulfill their contractual obligations satisfactorily. If any of our business partners fail to satisfactorily perform their contractual obligations as a result of financial or other difficulties, we may be required to incur additional costs and provide additional services in order to make up for our business partners shortfall. If we are unable to adequately address our business partners' performance issues, then our client could terminate the joint project, exposing us to legal liability, loss of reputation and reduced profit or loss on the project.

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

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

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. The absence of qualified subcontractors with whom we have a satisfactory relationship could adversely affect the quality of our service and our ability to perform under

some of our contracts. Our future revenue and growth prospects could be adversely affected if other contractors eliminate or reduce their subcontracts or teaming arrangement relationships with us, or if a government agency terminates or reduces these other contractors' programs, does not award them new contracts or refuses to pay under a contract.

**Changes in existing environmental laws, regulations and programs could reduce demand for our environmental services, which could cause our revenue to decline**

A significant amount of our resource management business is generated either directly or indirectly as a result of existing U.S. federal and state laws, regulations and programs related to pollution and environmental protection. Accordingly, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for environmental services that may have a material adverse effect on our revenue.

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**Our revenue from commercial clients is significant, and the credit risks associated with certain of these clients could adversely affect our operating results**

In the third quarter of fiscal 2009, we generated 28.8% of our revenue, net of subcontractor costs, from commercial clients. Due to the continuing weakness in general economic conditions, our commercial business may be at risk as we rely upon the financial stability and creditworthiness of our clients. To the extent the credit quality of these clients deteriorates or these clients seek bankruptcy protection, our ability to collect our receivables, and ultimately our operating results, may be adversely affected.

**Changes in capital markets could adversely affect our access to capital and negatively impact our business**

Our results could be adversely affected by a reduction in the volume of debt securities issued in domestic and/or global capital markets or an inability to access our \$300 million revolving credit facility. Unfavorable financial or economic conditions that either reduce investor demand for debt securities or reduce issuers' willingness or ability to issue such securities could reduce the number and dollar volume of debt issuance as well as impact certain issuers' willingness or ability to fund our revolving credit facility. In addition, increases in interest rates or credit spreads, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers and other market and economic factors may negatively impact the general level of debt issuance, the debt issuance plans of certain categories of borrowers, the types of credit-sensitive products being offered, and/or a sustained period of market decline or weakness could have a material adverse effect on us. Our results could also be adversely affected because of public statements or actions by market participants, government officials and others who may be advocates of increased regulation, regulatory scrutiny or litigation.

**Restrictive covenants in our credit agreement may restrict our ability to pursue certain business strategies**

Our credit agreement restricts our ability to, among other things:

- Incur additional indebtedness;
- Create liens securing debt or other encumbrances on our assets;
- Make loans or advances;
- Pay dividends or make distributions to our stockholders;

- Purchase or redeem our stock;
- Repay indebtedness that is junior to indebtedness under our credit agreement;
- Acquire the assets of, or merge or consolidate with, other companies; and
- Sell, lease or otherwise dispose of assets.

Our credit agreement also requires that we maintain certain financial ratios, which we may not be able to achieve.

**Our industry is highly competitive and we may be unable to compete effectively**

Our industry is highly fragmented and intensely competitive. Our competitors are numerous, ranging from small private firms to multi-billion-dollar public companies. In addition, the technical and professional aspects of our services generally do not require large upfront capital expenditures and provide limited barriers against new competitors. Some of our competitors have achieved greater market penetration in some of the markets in which we compete, and some have substantially more financial resources and/or financial flexibility than we do. As a result of the number of competitors in our industry, our clients may select one of our competitors on a project due to competitive pricing or a specific skill set. These competitive forces could force us to make price concessions or otherwise reduce prices for our services, thereby causing a material adverse effect on our business, financial condition and results of operations.

**The value of our common stock could be volatile**





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Our common stock has previously experienced substantial price volatility. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies and that have often been unrelated to the operating performance of these companies. The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

- Quarter-to-quarter variations in our financial results, including revenue, profits, days sales outstanding, backlog, and other measures of financial performance or financial condition;
- Our announcements or our competitors' announcements of significant events, including acquisitions;
- Resolution of threatened or pending litigation;
- Changes in investors' and analysts' perceptions of our business or any of our competitors' businesses;
- Investors' and analysts' assessments of reports prepared or conclusions reached by third parties;
- Changes in environmental legislation;
- Investors' perceptions of our performance of services in countries in which the U.S. military is engaged, including Iraq and Afghanistan;
- Broader market fluctuations; and
- General economic or political conditions.

Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom are granted stock options and shares of restricted stock, the value of which is dependent on the performance of our stock price.

**Our services expose us to significant risks of liability and it may be difficult to obtain or maintain adequate insurance coverage**

Our services involve significant risks of professional and other liabilities that may substantially exceed the fees we derive from our services. Our business activities could expose us to potential liability under various environmental laws and under workplace health and safety regulations. In addition, we sometimes assume liability by contract under indemnification agreements. We cannot predict the magnitude of such potential liabilities.

We obtain insurance from third parties to cover our potential risks and liabilities. It is possible that we may not be able to obtain adequate insurance to meet our needs, may have to pay an excessive amount for the insurance coverage we want, or may not be able to acquire any insurance for certain types of business risks.

**Our liability for damages due to legal proceedings may harm our operating results or financial condition**

We are a party to lawsuits in the normal course of business. Various legal proceedings are currently pending against us and certain of our subsidiaries alleging, among other things, breach of contract or tort in connection with the performance of professional services. We cannot predict the outcome of these proceedings with certainty. In some actions, parties are seeking damages that exceed our insurance coverage or for which we are not insured. If we sustain damages that exceed our insurance coverage or that are not covered by insurance, there could be a material adverse effect on our business, operating results or financial condition.

**Our inability to obtain adequate bonding could have a material adverse effect on our future revenues and business prospects**

Many of our clients require bid bonds and performance and payment bonds. These bonds indemnify the client should we fail to perform our obligations under a contract. If a bond is required for a particular project and we are unable to obtain an appropriate bond, we cannot pursue that project. In some instances, we are required to co-venture with a small or disadvantaged business to pursue certain U.S. federal or state contracts. In connection with these ventures, we are sometimes required to utilize our bonding capacity to cover all of the payment and performance obligations under the contract with the client. We have a bonding facility but, as is typically the case, the issuance of bonds under that facility is at the surety's sole discretion. Moreover, due to events that can negatively affect the

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insurance and bonding markets, bonding may be more difficult to obtain or may only be available at significant additional cost. There can be no assurance that bonds will continue to be available to us on reasonable terms. Our inability to obtain adequate bonding and, as a result, to bid on new work could have a material adverse effect on our future revenues and business prospects.

**Our business activities may require our employees to travel to and work in countries where there are high security risks, which may result in employee death or injury, repatriation costs or other unforeseen costs**

Certain of our contracts may require our employees travel to and work in high-risk countries that are undergoing political, social and economic upheavals resulting in war, civil unrest, criminal activity or acts of terrorism. For example, we currently have employees working in Afghanistan and Iraq. As a result, we may be subject to costs related to employee death or injury, repatriation or other unforeseen circumstances.

**Our failure to implement and comply with our safety program could adversely affect our operating results or financial condition**

Our safety program is a fundamental element of our overall approach to risk management, and the implementation of the safety program is a significant issue in our dealings with our clients. We maintain an enterprise-wide group of health and safety professionals to help ensure that the services we provide are delivered safely and in accordance with standard work processes. Unsafe job sites and office environments have the potential to increase employee turnover, increase the cost of a project to our clients, expose us to types and levels of risk that are fundamentally unacceptable, and raise our operating costs. The implementation of our safety processes and procedures are monitored by various agencies and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. If we fail to meet these requirements or do not properly implement and comply with our safety program, there could be a material adverse effect on our business, operating results or financial condition.

**We may be precluded from providing certain services due to conflict of interest issues**

Many of our clients are concerned about potential or actual conflicts of interest in retaining management consultants. U.S. federal government agencies have formal policies against continuing or awarding contracts that would create actual or potential conflicts of interest with other activities of a contractor. These policies, among other things, may prevent us from bidding for or performing government contracts resulting from or relating to certain work we have performed. In addition, services performed for a commercial or government client may create a conflict of interest that precludes or limits our ability to obtain work from other public or private organizations. We have, on occasion, declined to bid on projects due to conflict of interest issues.

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

Force majeure events, including natural disasters, and terrorist attacks, could negatively impact the economies in which we operate by causing the closure of offices, interrupting active client projects and forcing the relocation of employees. Further, despite our implementation of network

security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. We typically remain obligated to perform our services after a terrorist action or natural disaster unless the contract contains a force majeure clause that relieves us of our contractual obligations in such an extraordinary event. If we are not able to react quickly to force majeure, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations or cash flows.

**We have only a limited ability to protect our intellectual property rights, and our failure to protect our intellectual property rights could adversely affect our competitive position**

Our success depends, in part, upon our ability to protect our proprietary information and other intellectual property. We rely principally on trade secrets to protect much of our intellectual property where we do not believe that patent or copyright protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information. In addition, we may be unable to detect unauthorized use

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of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection would adversely affect our competitive business position. In addition, if we are unable to prevent third parties from infringing or misappropriating our trademarks or other proprietary information, our competitive position could be adversely affected.

**If we do not successfully complete the implementation of our enterprise resource planning ( ERP ) system, our cash flows may be impaired and we may incur further costs to integrate or upgrade our systems; any sudden loss, disruption or unexpected costs to maintain our ERP system or other third-party software could significantly increase our operational expense and disrupt the management of our business operations**

In fiscal 2004, we began implementation of a new company-wide ERP system, principally for accounting and project management. During fiscal 2009, we converted a few operating units into our ERP system, and we plan to complete the conversion process including our recent acquisitions, in fiscal 2011. In the event we do not complete the project successfully, we may experience difficulty in reporting certain revenue and costs data in an accurate and timely manner. During the ERP implementation process, we have experienced reduced cash flows due to temporary delays in issuing invoices to our clients, which have adversely affected the timely collection of cash. Further, it is possible that the cost of completing this project could exceed our current projections and negatively impact future operating results.

In addition, we rely on third-party software vendors to provide long-term software maintenance support for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, which may increase our operational expense as well as disrupt the management of our business operation.

**Item 6. Exhibits**

The following documents are filed as Exhibits to this Report:

- 31.1 Chief Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Chief Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer pursuant to Section 1350
- 32.2 Certification of Chief Financial Officer pursuant to Section 1350

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**SIGNATURES**

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

Dated: July 31, 2009

TETRA TECH, INC.

By: /s/ Dan L. Batrack  
Dan L. Batrack  
Chairman and Chief Executive Officer and President  
(Principal Executive Officer)

By: /s/ David W. King  
David W. King  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)